

Outlook for FY18-19 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY18 corporate earnings outlook

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

For FY18, our analysts forecast sales growth of 6.7% y-y and recurring profit growth of 8.9% for companies in the Russell/Nomura Large Cap Index (ex financials).

These forecasts represent downward revisions of 0.1ppt for sales growth and 2.4ppt for recurring profit growth versus our previous forecasts issued in September 2018 (based on data collated on 27 August 2018). Our forex assumptions for FY18 are USD/JPY of 110.7 (previously 110.5) and EUR/JPY of 129.0 (previously 130.0).

In FY18 Q2, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) rose 9.8% y-y on a 7.4% increase in sales. This brought FY18 H1 recurring profit growth to 14.2%, well above our previous forecast of 8.1% growth.

After excluding accounting factors and temporary factors as far as possible, in order to bring the figures closer to the underlying picture, we calculate FY18 Q2 results as sales growth of around 4% and recurring profit growth of around 6%. On the same adjusted basis, we calculate FY18 Q1 results as sales growth of just over 5% and recurring profit growth of just under 13%, which indicates that recurring profit growth slowed rather more than sales growth in FY18 Q2.

Recurring profits rose in 15 out of 19 sectors and fell in the remaining 4. The number of sectors that saw recurring profit growth thus increased from 11 in Q1 to 15 in Q2. However, in Q2 8 sectors saw recurring profit growth of 5% or less.

We have lowered our FY18 H2 recurring profit growth forecast to 3.3% versus 14.7% previously.

Overview of the FY19 corporate earnings outlook

For FY19, our analysts look for sales growth of 3.0% y-y and recurring profit growth of 9.7% for companies in the Russell/Nomura Large Cap Index (ex financials). Our forex assumptions for FY19 are USD/JPY of 111.0 (previously 111.0) and EUR/JPY of 128.0 (previously 130.0).

The current forecasts represent downward revisions of 0.2ppt for sales growth and 0.2ppt for recurring profit growth, compared with our previous forecasts. The downward revision of ¥1,154.7bn for FY19 is slightly larger than the downward revision of ¥973.1bn for FY18.

The average ROE for Russell/Nomura Large Cap index stocks was 10.3% in FY17, and we forecast a decline to 9.8% in FY18 and 9.7% in FY19.

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	FY17	FY18E	FY19E	FY18E	FY19E
Sales	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	6.7	3.0	6.8	3.2
	Manufacturing	181	0.2	-4.3	9.3	3.9	3.2	4.4	3.8
	Basic materials	41	-9.0	-5.6	17.1	8.9	0.3	9.2	1.1
	Processing	84	3.1	-4.4	7.9	2.6	3.7	3.2	4.2
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	10.8	2.7	10.5	2.5
	Russell/Nomura Small Cap (ex financials)	1,133	1.8	-0.5	6.1	5.1	3.8	5.3	3.6
Operating profits	Russell/Nomura Large Cap (ex financials)	303	8.7	2.9	16.3	6.4	7.8	9.1	7.5
	Manufacturing	181	2.9	-0.5	17.8	8.5	8.4	11.4	9.5
	Basic materials	41	8.6	9.4	34.9	10.4	3.1	12.1	3.8
	Processing	84	-2.0	-3.6	15.9	8.5	10.3	12.6	11.0
	Nonmanufacturing (ex financials)	122	18.6	7.5	14.3	3.6	7.0	6.1	4.6
	Russell/Nomura Small Cap (ex financials)	1,133	10.5	7.2	6.8	4.9	10.8	9.3	8.4
Recurring profits	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	7.6	9.1	9.9	9.0
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	8.9	9.7	11.3	9.9
	Manufacturing	181	-1.9	0.2	21.6	9.7	7.1	12.3	8.5
	Basic materials	41	-7.4	12.1	43.6	12.5	2.2	13.8	3.8
	Processing	84	-4.2	-3.1	19.6	9.7	9.0	13.4	9.9
	Nonmanufacturing	153	0.6	2.5	9.7	5.5	11.1	7.4	9.6
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	7.8	13.5	9.8	11.9
	Russell/Nomura Small Cap	1,227	3.7	5.8	9.0	4.3	8.8	8.1	6.9
Russell/Nomura Small Cap (ex financials)	1,133	4.1	8.8	8.4	6.1	9.3	10.0	7.3	
Net profits	Russell/Nomura Large Cap	334	-3.9	8.5	32.2	1.9	5.4	4.1	5.5
	Russell/Nomura Large Cap (ex financials)	303	-4.7	10.8	38.5	3.1	5.3	5.2	5.8
	Manufacturing	181	-4.8	-1.5	53.1	4.9	0.0	7.1	1.8
	Basic materials	41	-27.1	58.4	49.6	12.3	-2.1	13.2	0.5
	Processing	84	-3.0	-14.0	68.5	3.6	-0.4	6.8	0.8
	Nonmanufacturing	153	-3.0	18.2	15.1	-1.4	11.7	0.9	9.8
	Nonmanufacturing (ex financials)	122	-4.6	30.9	20.4	0.2	14.2	2.3	12.5
	Russell/Nomura Small Cap	1,227	1.9	17.3	14.5	7.3	6.6	12.6	3.5
	Russell/Nomura Small Cap (ex financials)	1,133	0.0	21.7	10.1	10.4	9.3	17.0	5.1

Note: Latest estimates as of 26 November 2018; previous estimates as of 27 August 2018.

Source: Nomura

Fig. 2: Major assumptions

	As of 18 October 2018						As of 19 July 2018					
	Industrial production 2010 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)			Industrial production 2010 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)		
				% y-y	%					\$/bbl	USD/JPY	
FY17	4.1	-0.1	53.7	110.8	129.7		4.1	-0.1	53.7	110.8	129.7	
FY18E	-0.1	-0.1	69.3	110.7	129.0		1.6	-0.1	69.5	110.5	130.0	
FY19E	0.5	-0.1	70.0	111.0	128.0		1.2	-0.1	70.0	111.0	130.0	
FY17 H1	4.8	-0.1	48.2	111.0	126.3		4.8	-0.1	48.2	111.0	126.3	
FY17 H2	3.4	-0.1	59.1	110.6	133.0		3.4	-0.1	59.1	110.6	133.0	
FY18 H1	Estimate 0.7	-0.1	68.7	110.3	129.9		1.8	-0.1	68.9	110.1	130.0	
FY18E H2	-0.8	-0.1	70.0	111.0	128.0		1.4	-0.1	70.0	111.0	130.0	
FY19E H1	-0.0	-0.1	70.0	111.0	128.0		1.2	-0.1	70.0	111.0	130.0	
FY19E H2	1.0	-0.1	70.0	111.0	128.0		1.2	-0.1	70.0	111.0	130.0	

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

Source: Nomura

Contributions to recurring profit growth by sector

Overview of the FY18 corporate earnings outlook

For FY18, we project that recurring profits will increase in 13 of the 19 sectors and decrease in 6.

The sectors from which we expect particularly large contributions to overall profit growth are electrical machinery & precision equipment, telecommunications, chemicals, and trading companies.

In the electrical machinery & precision equipment sector, growth in demand for products for automotive applications (reflecting the shift to electric powertrains, autonomous driving, and connected cars) has been driving earnings. Other factors include growth in the SPE market, expansion of content-related businesses in the consumer electronics field, and the dropout of restructuring costs. In the chemicals sector, we expect improvements in petroleum product margins and higher crude oil prices to result in profit growth in the oil subsector. In addition, semiconductor silicon businesses are performing well, supported by firm demand for semiconductor devices, needle coke and graphite electrode prices are improving because of tighter environmental regulations in China, and acrylic resin raw materials prices are also buoyant, supported by strong demand for paints, for example. In the trading companies sector, prices of coking coal and crude oil have remained high, and we think profits are likely to grow in resources businesses in particular.

Sectors from which we expect particularly large negative contributions to profit growth are utilities and services.

In the utilities sector, sales volumes at electric power companies are likely to decrease as customers switch to other providers as a result of the deregulation of electric power. Meanwhile, a major factor behind our forecast for a drop in profits in the services sector is the expected profit decline at Japan Post Holdings [6178], which has banking and life insurance subsidiaries. Excluding Japan Post Holdings, however, we forecast profit growth in the services sector, supported by human resource-related services and theme park businesses.

Overview of the FY19 corporate earnings outlook

For FY19, we project that recurring profits will increase in all 19 sectors. We expect profit growth to accelerate from FY18 to FY19 in the six sectors of telecommunications, automobiles, financials, software, transportation, and steel & nonferrous metals, and forecast a switch from profit declines to profit growth in the six sectors of utilities, services, housing & real estate, food, construction, and media.

The sectors that we expect to make particularly large contributions to profit growth are telecommunications, electrical machinery & precision equipment, and automobiles. In the electrical machinery & precision equipment sector, we expect profit growth to continue to be driven mainly by growth in automotive demand. We also expect merger effects and the dropout of restructuring costs to boost profits. In the automobiles sector, we expect profits to grow on the back of margin improvements resulting from efforts to reduce COGS, for example, and also expect the dropout of quality-related costs recorded in FY18 to have an impact. We expect global auto sales growth to slow from 0.8% in 2018 to 0.6% in 2019, reflecting a deterioration in the Chinese market, but Japanese auto manufacturers' Chinese businesses are performing relatively well, with substantial growth in sales of SUVs.

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

FY18E				FY19E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
13 sectors				19 sectors			
Electrical machinery, precision equipment	17.8	25.1	25.2	Telecommunications	30.3	27.2	29.6
Telecommunications	21.5	20.4	20.5	Electrical machinery, precision equipment	11.1	14.4	15.7
Chemicals	15.4	16.7	16.7	Automobiles	7.4	12.1	13.1
Trading companies	19.2	15.0	15.1	Financials	5.2	7.9	-
Machinery	13.2	8.7	8.7	Utilities	25.8	5.3	5.8
Automobiles	3.0	6.1	6.1	Machinery	8.7	5.0	5.5
Retailing	10.6	4.2	4.2	Services	10.3	3.5	3.8
Pharmaceuticals, healthcare	9.5	4.2	4.2	Software	24.5	3.4	3.7
Software	22.6	3.3	3.3	Retailing	9.4	3.2	3.5
Household goods	13.1	2.8	2.8	Housing, real estate	6.9	3.1	3.3
Transportation	3.2	2.1	2.1	Transportation	5.7	3.1	3.3
Steel, nonferrous metals	2.0	0.6	0.6	Pharmaceuticals, healthcare	6.2	2.3	2.5
Financials	0.2	0.4	-	Trading companies	2.7	2.0	2.2
				Household goods	10.5	2.0	2.1
Decrease in profits (%)				Chemicals	1.9	1.8	2.0
				Food	4.5	1.6	1.8
6 sectors				Steel, nonferrous metals	3.7	0.9	1.0
Food	-0.2	-0.1	-0.1	Construction	4.6	0.7	0.7
Construction	-2.6	-0.5	-0.5	Media	7.1	0.5	0.5
Housing, real estate	-1.7	-1.0	-1.0				
Media	-10.3	-1.0	-1.0				
Services	-4.7	-2.1	-2.2				
Utilities	-15.6	-4.9	-4.9				

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY18 corporate earnings outlook

We have raised our FY18 recurring profit forecasts for 5 of the 19 sectors and lowered them for 13.

Sectors with particularly large upward revisions, in terms of absolute profits, were chemicals and pharmaceuticals & healthcare.

In chemicals, our upward revision for the oil subsector, reflecting buoyant crude oil prices, accounted for most of the upward revision. Our forecasts also factored in an increase in merger synergies and growth in sales at equity-method projects. In pharmaceuticals & healthcare, both overseas and domestic sales have been strong overall and R&D costs have been lower than expected. In media, the upward revision was small in absolute terms but large in percentage terms. We expect profit margins to improve on the back of cost reductions in broadcasting businesses.

Sectors for which we have made large downward revisions include electrical machinery & precision equipment, automobiles, telecommunications, and steel & nonferrous metals.

In the electrical machinery & precision equipment sector, earnings should have probably been supported by strong demand related to the three key pillars of data centers, automotive products, and industrial machinery, but the environment in non-automotive areas has deteriorated. We have lowered our estimates for SPE to reflect investment freezes and cancellations by major memory manufacturers. In addition, the slowdown in FA, mainly in China, has resulted in downward revisions to our forecasts for industrial machinery businesses. In addition, profits in precision/films businesses have been hit by weak sales of interchangeable lens cameras, restructuring costs, and natural disasters. In the automobiles sector, we have lowered our estimates to reflect major quality issues, higher input prices and weaker emerging economy currencies, and a slowdown in sales in emerging markets. The steel & nonferrous metals sector, meanwhile, has been affected by a fall in metal prices and production difficulties resulting from damage caused by natural disasters.

Overview of the FY19 corporate earnings outlook

We have raised our FY19 recurring profit forecasts for 4 of the 19 sectors and lowered them for 14.

We have made particularly large upward revisions to our recurring profit forecasts for the trading companies sector. In the trading companies sector, we have raised our forecasts to reflect changes to our assumptions for the price of coking coal and other resources.

Sectors for which we have made large downward revisions include automobiles, electrical machinery & precision equipment, housing & real estate, and steel & nonferrous metals.

In the automobiles sector, we have lowered our forecasts for FY19 to reflect a rise in input costs and a weakening of emerging economy currencies, and a slowdown in sales in emerging markets, as was also the case with our downward revisions for FY18. For the electrical machinery & precision equipment sector too, the reasons for our downward revisions for FY19 are also not that different to those for FY18, but our downward revisions for FY19 are smaller than those for FY18 because we expect restructuring costs to be lower. In housing & real estate, we have factored in the negative impact on housing equipment from higher input prices, and the negative impact on apartment construction businesses from a tightening of lending criteria. In steel & nonferrous metals, as well as the impact of lower metals prices and production difficulties, we have also factored in the impact of slowdowns in auto production, machinery demand, and high-spec smartphone sales.

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

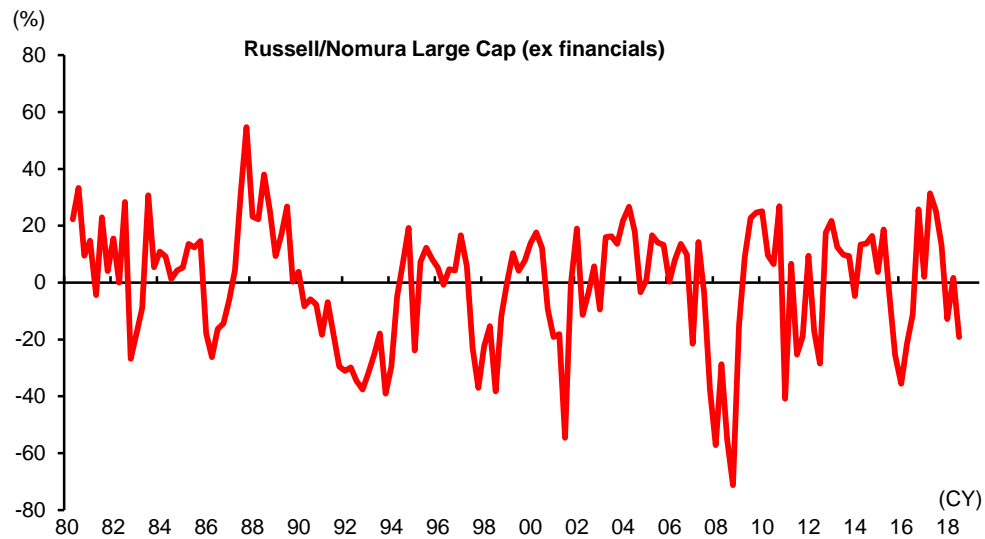
FY18E					FY19E				
[Upward revisions] 5 sectors					[Upward revisions] 4 sectors				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
Chemicals	4,550	4,489	60	1.3	Trading companies	3,493	3,424	70	2.0
Pharmaceuticals, healthcare	1,749	1,708	41	2.4	Telecommunications	5,476	5,434	43	0.8
Trading companies	3,400	3,372	29	0.8	Utilities	1,208	1,179	29	2.5
Media	313	294	19	6.4	Media	335	322	13	4.0
Services	1,593	1,591	2	0.2					
[Downward revisions] 13 sectors					[Downward revisions] 14 sectors				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
Household goods	875	886	-11	-1.3	Software	812	821	-9	-1.1
Software	652	670	-18	-2.7	Household goods	967	979	-12	-1.3
Retailing	1,602	1,623	-22	-1.3	Financials	7,500	7,521	-22	-0.3
Food	1,687	1,720	-33	-1.9	Services	1,757	1,787	-30	-1.7
Transportation	2,499	2,533	-34	-1.4	Retailing	1,752	1,793	-40	-2.2
Machinery	2,719	2,765	-46	-1.7	Pharmaceuticals, healthcare	1,856	1,899	-43	-2.2
Utilities	960	1,018	-59	-5.7	Transportation	2,642	2,689	-47	-1.8
Housing, real estate	2,077	2,180	-103	-4.7	Chemicals	4,634	4,688	-54	-1.1
Financials	7,130	7,244	-114	-1.6	Machinery	2,954	3,018	-64	-2.1
Steel, nonferrous metals	1,129	1,257	-128	-10.2	Food	1,764	1,847	-84	-4.5
Telecommunications	4,203	4,354	-151	-3.5	Steel, nonferrous metals	1,170	1,276	-106	-8.3
Automobiles	7,680	7,873	-193	-2.5	Housing, real estate	2,220	2,333	-114	-4.9
Electrical machinery, precision equipment	6,068	6,393	-325	-5.1	Electrical machinery, precision equipment	6,741	7,020	-279	-4.0
					Automobiles	8,245	8,672	-427	-4.9

Note: Latest estimates as of 26 November 2018; previous estimates as of 27 August 2018. For the construction sector, we have made no changes to our recurring profit estimates for FY18 or FY19.

Source: Nomura

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

	(yy/m)	17/3	17/6	17/9	17/12	18/3	18/6	18/9	18/12 (%)
Russell/Nomura Large Cap		26.0	1.5	27.5	23.7	14.4	-11.4	0.9	-17.4
Russell/Nomura Large Cap (ex financials)		25.8	2.0	31.5	25.5	13.2	-12.9	1.7	-19.1
Manufacturing		40.1	-6.8	42.6	24.4	13.3	-23.8	7.2	-26.0
Basic materials		32.5	5.1	56.4	28.2	26.8	-17.1	9.8	-36.6
Processing		61.3	-26.3	53.8	26.3	17.9	-33.3	14.3	-29.8
Nonmanufacturing (ex financials)		5.6	14.3	15.9	27.0	13.1	3.3	-6.6	-9.0



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	FY17	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	6.8	6.7	3.2	3.0
	Manufacturing	181	0.2	-4.3	9.3	4.4	3.9	3.8	3.2
	Basic materials	41	-9.0	-5.6	17.1	9.2	8.9	1.1	0.3
	Processing	84	3.1	-4.4	7.9	3.2	2.6	4.2	3.7
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	10.5	10.8	2.5	2.7
Broad sectors	Materials	41	-9.0	-5.6	17.1	9.2	8.9	1.1	0.3
	Machinery, autos	46	5.7	-3.1	9.0	3.5	3.0	3.7	3.6
	Electronics	38	-0.9	-6.3	6.0	2.7	2.0	5.2	3.9
	Consumer, distribution	95	-1.4	-2.2	6.7	14.4	15.0	3.4	3.6
	Information	23	5.7	0.1	6.3	3.7	3.3	3.4	3.1
	Utilities, infrastructure	60	-1.3	-2.5	6.0	2.3	2.6	2.3	2.6
Sectors	Chemicals	31	-9.9	-5.8	18.0	10.0	10.6	0.7	-0.5
	Steel, nonferrous metals	10	-6.8	-5.1	15.0	7.5	5.3	1.8	2.3
	Machinery	26	3.3	-2.9	13.9	4.5	4.2	3.9	3.6
	Autos	20	6.5	-3.2	7.7	3.3	2.7	3.6	3.6
	Electrical machinery, precision equipment	38	-0.9	-6.3	6.0	2.7	2.0	5.2	3.9
	Pharmaceuticals, healthcare	24	5.2	-2.7	3.2	0.9	1.1	9.8	9.6
	Food products	19	1.6	-1.8	6.7	2.5	2.4	2.7	2.0
	Household goods	13	6.0	-4.1	7.5	3.5	3.3	4.7	5.3
	Trading companies	7	-9.7	-4.6	13.1	41.2	43.1	1.4	1.9
	Retailing	18	7.3	2.2	5.1	5.9	5.9	4.3	4.9
	Services	14	4.1	-2.7	0.7	0.8	1.0	2.1	1.9
	Software	9	-0.1	2.9	20.8	12.8	11.8	10.4	10.5
	Media	5	12.0	-1.3	5.3	4.1	4.7	2.5	2.2
	Telecommunications	9	5.5	0.0	4.7	2.6	2.0	2.6	2.3
	Construction, engineering	6	1.7	0.2	1.9	6.7	6.7	2.3	2.3
	Housing, real estate	19	4.3	5.1	5.1	5.5	5.4	3.8	3.3
	Transportation	24	0.3	-3.1	5.8	-2.1	-1.5	1.8	2.2
Utilities	11	-7.7	-8.2	8.5	2.8	3.2	1.4	2.4	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 November 2018; previous estimates as of 27 August 2018.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY15	FY16	FY17	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	9.9	7.6	9.0	9.1
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	11.3	8.9	9.9	9.7
	Manufacturing	181	-1.9	0.2	21.6	12.3	9.7	8.5	7.1
	Basic materials	41	-7.4	12.1	43.6	13.8	12.5	3.8	2.2
	Processing	84	-4.2	-3.1	19.6	13.4	9.7	9.9	9.0
	Nonmanufacturing	153	0.6	2.5	9.7	7.4	5.5	9.6	11.1
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	9.8	7.8	11.9	13.5
Broad sectors	Materials	41	-7.4	12.1	43.6	13.8	12.5	3.8	2.2
	Machinery, autos	46	1.9	-13.0	16.5	7.9	5.5	9.9	7.7
	Electronics	38	-19.7	27.8	26.1	24.1	17.8	9.8	11.1
	Consumer, distribution	95	-7.6	19.8	14.8	8.6	8.7	7.6	6.3
	Information	23	4.3	0.2	6.1	22.6	19.1	23.7	28.2
	Utilities, infrastructure	60	37.3	-3.8	9.6	0.7	-2.4	7.8	9.1
	Financials	31	-8.6	-8.1	4.4	1.8	0.2	3.8	5.2
Sectors	Chemicals	31	21.6	16.1	34.2	13.9	15.4	4.4	1.9
	Steel, nonferrous metals	10	-54.6	-5.5	93.4	13.6	2.0	1.6	3.7
	Machinery	26	-6.6	-17.9	29.3	15.1	13.2	9.2	8.7
	Autos	20	4.7	-11.6	12.9	5.6	3.0	10.1	7.4
	Electrical machinery, precision equipment	38	-19.7	27.8	26.1	24.1	17.8	9.8	11.1
	Pharmaceuticals, healthcare	24	39.2	-5.4	5.9	7.0	9.5	11.2	6.2
	Food products	19	-0.5	8.3	4.8	1.7	-0.2	7.4	4.5
	Household goods	13	3.3	5.8	20.8	14.5	13.1	10.5	10.5
	Trading companies	7	-62.2	233.4	31.2	18.2	19.2	1.5	2.7
	Retailing	18	13.4	-1.4	12.4	12.1	10.6	10.4	9.4
	Services	14	-5.6	-9.6	10.9	-4.8	-4.7	12.4	10.3
	Software	9	-11.4	21.1	44.2	26.1	22.6	22.5	24.5
	Media	5	10.4	-1.0	9.6	-15.7	-10.3	9.5	7.1
	Telecommunications	9	5.6	-1.4	1.4	25.9	21.5	24.8	30.3
	Construction, engineering	6	92.4	30.5	9.8	-2.6	-2.6	4.6	4.6
	Housing, real estate	19	11.3	22.4	9.9	3.2	-1.7	7.0	6.9
	Transportation	24	13.3	-5.2	9.0	4.6	3.2	6.2	5.7
	Utilities	11	146.7	-36.2	10.2	-10.5	-15.6	15.8	25.8
Financials	31	-8.6	-8.1	4.4	1.8	0.2	3.8	5.2	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 November 2018; previous estimates as of 27 August 2018.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY15	FY16	FY17	FY18E Old	FY18E New	FY19E Old	FY19E New
Industrial groups	Russell/Nomura Large Cap	334	39,670	41,339	47,681	52,655	51,568	57,420	56,243
	Russell/Nomura Large Cap (ex financials)	303	32,151	34,408	40,521	45,411	44,438	49,898	48,744
	Manufacturing	181	19,524	19,641	23,855	27,091	26,455	29,400	28,332
	Basic materials	41	3,177	3,551	4,971	5,746	5,678	5,965	5,804
	Processing	84	12,880	12,524	14,790	17,031	16,466	18,710	17,941
	Nonmanufacturing	153	20,146	21,698	23,826	25,565	25,113	28,020	27,911
	Nonmanufacturing (ex financials)	122	12,627	14,766	16,666	18,321	17,983	20,499	20,412
Broad sectors	Materials	41	3,177	3,551	4,971	5,746	5,678	5,965	5,804
	Machinery, autos	46	9,835	8,528	9,755	10,638	10,399	11,690	11,199
	Electronics	38	3,045	3,996	5,035	6,393	6,068	7,020	6,741
	Consumer, distribution	95	6,048	8,630	10,162	10,899	10,905	11,729	11,589
	Information	23	4,087	3,999	4,317	5,319	5,168	6,577	6,623
	Utilities, infrastructure	60	5,959	5,704	6,280	6,417	6,221	6,918	6,786
	Financials	31	7,519	6,931	7,160	7,244	7,130	7,521	7,500
Sectors	Chemicals	31	2,583	3,002	3,911	4,489	4,550	4,688	4,634
	Steel, nonferrous metals	10	594	549	1,061	1,257	1,129	1,276	1,170
	Machinery	26	2,264	1,813	2,336	2,765	2,719	3,018	2,954
	Autos	20	7,571	6,716	7,419	7,873	7,680	8,672	8,245
	Electrical machinery, precision equipment	38	3,045	3,996	5,035	6,393	6,068	7,020	6,741
	Pharmaceuticals, healthcare	24	1,578	1,465	1,616	1,708	1,749	1,899	1,856
	Food products	19	1,383	1,487	1,723	1,720	1,687	1,847	1,764
	Household goods	13	507	613	755	886	875	979	967
	Trading companies	7	657	2,192	2,852	3,372	3,400	3,424	3,493
	Retailing	18	1,386	1,435	1,545	1,623	1,602	1,793	1,752
	Services	14	538	1,437	1,671	1,591	1,593	1,787	1,757
	Software	9	352	341	564	670	652	821	812
	Media	5	322	318	349	294	313	322	335
	Telecommunications	9	3,414	3,339	3,404	4,354	4,203	5,434	5,476
	Construction, engineering	6	462	617	664	686	686	718	718
	Housing, real estate	19	1,604	1,845	2,054	2,180	2,077	2,333	2,220
	Transportation	24	2,267	2,204	2,450	2,533	2,499	2,689	2,642
Utilities	11	1,627	1,038	1,112	1,018	960	1,179	1,208	
Financials	31	7,519	6,931	7,160	7,244	7,130	7,521	7,500	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 26 November 2018; previous estimates as of 27 August 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			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	19.5	2.3	14.5	6.3	52.0	39.5	22.5	11.4
	Russell/Nomura Large Cap (ex financials)	9.3	5.6	8.3	7.4	26.8	-0.2	11.3	4.8	23.4	0.2	16.9	9.8	65.6	42.0	26.9	15.7
	Manufacturing	10.1	6.3	6.1	3.9	44.3	-9.6	12.6	4.8	33.8	-8.8	16.7	5.9	93.0	50.1	36.8	16.5
	Basic materials	19.0	12.5	11.3	10.5	29.7	11.8	29.7	10.8	27.4	13.5	31.5	14.4	47.8	8.8	40.6	18.9
	Processing	8.0	4.5	5.2	2.2	67.7	-20.5	13.0	2.4	48.7	-20.1	18.8	3.7	142.5	65.6	52.7	16.0
	Nonmanufacturing	-	-	-	-	-	-	-	-	8.3	19.5	12.3	6.6	23.3	26.6	7.8	6.6
	Nonmanufacturing (ex financials)	8.1	4.6	11.6	12.6	9.0	18.5	9.8	4.8	11.6	20.9	17.3	14.9	36.2	27.0	11.4	14.6
Broad sectors	Basic materials	19.0	12.5	11.3	10.5	29.7	11.8	29.7	10.8	27.4	13.5	31.5	14.4	47.8	8.8	40.6	18.9
	Machinery, autos	10.5	4.9	5.6	2.0	28.3	11.7	8.2	-3.4	16.1	8.9	9.4	0.8	74.8	4.9	6.3	7.3
	Electronics	4.0	4.0	4.4	2.5	304.9	-52.2	23.1	11.2	242.2	-50.0	40.1	8.3	5,476.2	384.5	160.0	32.0
	Consumption, distribution	7.8	4.4	15.9	16.4	8.7	12.9	7.4	3.7	9.4	13.0	7.7	3.6	27.9	83.8	6.7	10.4
	Information	9.5	3.0	3.0	4.4	6.5	29.2	18.9	21.7	11.5	64.1	46.7	62.0	130.9	-50.9	51.8	63.3
	Utilities, infrastructure	7.5	6.1	2.7	3.9	12.3	25.7	-6.2	-5.9	10.8	27.6	-6.0	-6.0	-7.7	140.8	-21.6	-8.0
	Financials	-	-	-	-	-	-	-	-	1.1	16.6	1.6	-14.7	-1.3	25.9	0.7	-13.4
Sectors	Chemicals	19.8	13.9	12.2	13.0	24.5	12.8	41.7	13.9	19.8	12.9	45.4	16.7	33.6	25.2	58.4	17.6
	Steel, nonferrous metals	17.0	9.5	9.2	4.8	60.7	8.4	-7.3	-4.2	72.7	15.8	-4.2	3.7	142.7	-43.8	5.1	24.4
	Machinery	17.8	9.6	7.1	4.0	44.9	8.6	16.0	9.4	16.2	1.3	18.5	3.0	21.0	-8.9	15.0	0.9
	Automobiles	8.6	3.5	5.1	1.5	23.5	12.9	5.7	-8.1	16.1	11.4	6.8	0.1	90.4	10.1	3.9	9.5
	Electrical machinery, precision equipment	4.0	4.0	4.4	2.5	304.9	-52.2	23.1	11.2	242.2	-50.0	40.1	8.3	5,476.2	384.5	160.0	32.0
	Pharmaceuticals, healthcare	4.5	3.2	2.2	0.2	17.1	72.7	-11.8	9.2	1.6	73.9	-12.7	8.6	29.8	64.9	-9.1	21.4
	Food products	10.1	7.3	2.5	2.5	-1.5	5.6	-6.9	3.1	0.4	11.6	-5.4	-0.2	22.5	18.0	-24.4	-1.3
	Household goods	8.1	7.3	5.3	3.3	22.8	37.1	23.4	2.4	28.3	33.1	24.7	3.5	66.9	42.9	26.9	60.5
	Trading companies	14.4	5.7	46.6	47.2	3.3	22.6	30.2	3.6	16.7	18.5	27.0	3.9	22.8	4.7	30.8	-3.2
	Retailing	4.9	4.5	5.4	6.3	10.6	0.2	13.8	-0.5	7.5	-1.2	14.4	2.0	20.4	-7.2	26.3	5.1
	Services	1.1	0.2	0.6	2.9	12.6	-6.5	3.0	3.3	10.7	-7.1	3.2	4.3	32.5	SP	12.6	38.8
	Software	30.1	3.3	1.2	5.8	45.8	18.9	-3.3	1.8	9.6	-2.3	-1.4	4.1	-4.8	44.4	1.1	-12.7
	Media	4.5	3.5	5.2	4.5	13.7	-9.8	29.0	-8.2	22.9	1.8	-7.8	73.8	29.3	-2.0	-22.9	113.5
	Telecommunications	7.5	2.9	3.0	4.2	-0.0	36.0	20.4	25.0	10.6	119.3	57.1	68.5	190.8	-58.0	67.0	73.6
	Construction, engineering	4.9	-2.4	2.5	7.7	2.2	13.1	-25.7	3.7	-2.1	16.8	-23.0	7.3	-4.1	16.7	-21.2	1.7
	Housing, real estate	5.6	8.7	7.1	4.6	3.4	18.3	0.5	6.2	1.2	26.0	1.2	7.1	2.5	44.2	-0.6	11.0
	Transportation	7.3	4.0	-0.4	-1.7	9.1	-3.2	0.9	-0.3	4.3	-13.0	-2.6	-1.8	7.8	-17.5	-15.8	-4.8
	Utilities	10.7	9.4	2.5	8.3	76.3	8	-22.1	29.1	145.0	SP	-15.6	-29.7	-54.9	SP	-50.2	-35.9
	Financials	-	-	-	-	-	-	-	-	1.1	16.6	1.6	-14.7	-1.3	25.9	0.7	-13.4

Note: (1) Q1 = Feb-Apr, Mar-May, or Apr-Jun; Q2 = May-Jul, Jun-Aug, or Jul-Sep; Q3 = Aug-Oct, Sep-Nov, or Oct-Dec; Q4 = Nov-Jan, Dec-Feb, or Jan-Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 26 November 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			
		FY18 E	FY19 E	FY20 E	FY18 E	FY19 E	FY20 E	FY17	FY18 E	FY18 E	FY19 E	FY20 E	FY17	FY18 E	FY19 E	FY20 E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	13.1	12.5	11.6	-	-	-	1.33	1.25	2.33	2.48	2.63	10.3	9.8	9.7	9.8
	Russell/Nomura Large Cap (ex loss-making cos)	13.1	12.5	11.6	-	-	-	1.34	1.25	2.33	2.48	2.63	10.5	9.9	9.7	9.8
	Russell/Nomura Large Cap (ex financials)	13.7	13.0	12.1	7.9	7.5	7.1	1.52	1.41	2.25	2.39	2.55	11.2	10.7	10.5	10.5
	Manufacturing	13.3	13.3	12.2	8.2	8.0	7.5	1.58	1.48	2.35	2.50	2.68	11.9	11.5	10.7	10.9
	Basic materials	9.9	10.1	9.6	5.3	5.2	5.0	1.02	0.96	2.86	2.93	3.11	9.7	10.0	9.2	9.1
	Processing	11.6	11.6	10.6	7.3	7.2	6.7	1.46	1.36	2.50	2.69	2.92	12.8	12.2	11.2	11.5
	Nonmanufacturing	12.9	11.6	11.0	-	-	-	1.13	1.05	2.31	2.44	2.57	9.0	8.4	8.8	8.8
	Nonmanufacturing (ex financials)	14.3	12.5	11.9	7.5	6.9	6.6	1.43	1.32	2.09	2.23	2.34	10.2	9.5	10.2	10.0
Broad sectors	Basic materials	9.9	10.1	9.6	5.3	5.2	5.0	1.02	0.96	2.86	2.93	3.11	9.7	10.0	9.2	9.1
	Machinery, autos	11.1	10.3	9.5	7.0	6.6	6.1	1.25	1.18	2.98	3.22	3.49	12.5	11.0	11.0	11.2
	Electronics	12.4	14.0	12.5	7.9	8.4	7.7	1.89	1.69	1.89	2.02	2.17	13.3	14.4	11.6	11.9
	Consumption, distribution	19.0	18.0	16.7	12.4	11.8	11.1	1.87	1.77	1.99	2.11	2.22	9.6	9.6	9.5	9.7
	Information	14.1	10.8	10.4	6.4	5.6	5.4	1.68	1.57	2.22	2.44	2.61	13.3	11.4	13.9	13.1
	Utilities, infrastructure	13.5	12.4	11.7	6.5	6.1	5.9	1.30	1.21	1.87	1.97	2.03	10.1	9.2	9.4	9.3
	Financials	9.6	9.1	8.6	-	-	-	0.64	0.61	3.11	3.22	3.39	7.2	6.5	6.5	6.6
Sectors	Chemicals	10.1	10.3	9.7	5.9	5.8	5.5	1.16	1.09	2.75	2.84	3.00	11.0	11.2	10.2	10.1
	Steel, nonferrous metals	9.2	9.7	9.0	3.8	3.8	3.6	0.69	0.66	3.27	3.31	3.52	6.8	7.3	6.6	6.9
	Machinery	15.5	14.2	13.2	9.7	9.1	8.6	1.61	1.52	2.20	2.35	2.49	9.9	10.1	10.4	10.4
	Automobiles	9.6	9.1	8.3	6.1	5.7	5.3	1.12	1.05	3.39	3.67	4.01	13.4	11.3	11.3	11.5
	Electrical machinery, precision equipment	12.4	14.0	12.5	7.9	8.4	7.7	1.89	1.69	1.89	2.02	2.17	13.3	14.4	11.6	11.9
	Pharmaceuticals, healthcare	26.7	26.5	24.4	17.9	17.5	16.6	2.64	2.57	1.66	1.69	1.74	9.6	9.8	9.5	9.8
	Food products	19.6	18.8	17.4	12.1	11.6	11.0	2.16	2.09	2.43	2.66	2.84	13.0	10.9	10.8	11.1
	Household goods	26.8	24.2	22.0	18.8	17.1	15.6	4.16	3.80	1.27	1.41	1.54	14.1	14.8	15.1	15.2
	Trading companies	6.8	6.6	6.4	4.9	4.7	4.6	0.92	0.82	4.25	4.46	4.68	12.0	12.7	11.9	11.3
	Retailing	29.2	26.2	22.6	15.4	14.5	13.1	2.68	2.51	1.21	1.31	1.40	8.7	8.9	9.3	10.1
	Services	25.2	22.3	20.3	16.1	14.7	13.5	1.22	1.19	1.77	1.84	1.90	5.2	4.8	5.2	5.5
	Software	23.6	19.2	16.8	19.4	16.4	14.6	3.32	3.19	2.24	2.74	3.13	12.0	14.0	15.9	16.6
	Media	17.3	16.2	14.9	12.0	11.3	10.6	1.15	1.14	1.72	1.69	1.69	7.7	6.6	6.8	7.1
	Telecommunications	12.0	9.0	8.8	4.9	4.3	4.2	1.49	1.38	2.27	2.42	2.53	14.5	11.8	14.6	13.4
	Construction	9.2	8.8	8.5	8.0	7.7	7.5	1.36	1.19	2.67	2.85	2.93	16.8	13.6	13.0	12.3
	Housing, real estate	13.2	12.4	12.1	9.5	9.0	8.7	1.41	1.30	2.37	2.49	2.57	11.1	10.2	10.1	9.7
	Transportation	15.2	14.3	13.2	7.1	6.8	6.5	1.51	1.40	1.28	1.37	1.44	9.6	9.5	9.4	9.5
	Utilities	12.8	10.5	9.8	3.3	3.1	3.0	0.83	0.80	2.12	2.17	2.19	8.2	6.4	7.4	7.5
	Financials	9.6	9.1	8.6	-	-	-	0.64	0.61	3.11	3.22	3.39	7.2	6.5	6.5	6.6
Russell/Nomura Small Cap		15.5	14.6	14.1	-	-	-	1.18	1.14	1.86	1.90	1.95	7.4	7.5	7.6	7.4
Russell/Nomura Small Cap (ex financials)		16.5	15.1	14.6	9.1	8.6	8.4	1.31	1.26	1.77	1.82	1.87	7.6	7.9	8.1	7.9

Note: Share prices and forecasts are as of 26 November 2018.

Source: Nomura

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- 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:

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- 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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As at 30 September 2018.

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The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as '**Not rated**' or shown as '**No rating**' are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: <http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx>; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan**: Russell/Nomura Large Cap.

SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as '**Not rated**' or shown as '**N/A**' are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

Target Price

A Target Price, if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J17 and subsequent issues, the maturity value shall not undercut the face amount.

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