

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 6.4% y-y and recurring profit growth of 5.0% for companies in the Russell/Nomura Large Cap Index (ex financials). These forecasts represent downward revisions of 0.3ppt for sales growth and 3.9ppt for recurring profit growth. The downward revision to our overall forecast for FY18 recurring profits is relatively large at ¥1,602bn. Our forex assumptions for FY18 are USD/JPY of 110.4 (previously 110.7) and EUR/JPY of 127.9 (previously 129.0).

In FY18 Q3, sales were up and profits down at companies in the Russell/Nomura Large Cap Index (ex financials), with sales up 5.9% y-y and recurring profits down 17.2%. Recurring profits only rose in 3 of 19 sectors.

After excluding companies heavily impacted by one-time or accounting factors as far as possible in order to bring the figures closer to the underlying picture, we calculate that in FY18 Q3, sales rose around 3% and recurring profits fell around 7%. On the same adjusted basis, we calculate FY18 Q2 sales up around 4% and recurring profits up around 1%, which would mean that sales growth was down 1ppt q-q and recurring profit growth was down 8ppt. As per what we saw in FY18 Q2, recurring profit growth was down more sharply q-q than sales growth in FY18 Q3.

To date, our forecasts called for overall net profit growth in FY18 at companies in both the Russell/Nomura Large Cap Index and the Russell/Nomura Large Cap Index (ex financials). Our revised forecasts now, however, call for profits to swing downward at companies in the Russell/Nomura Large Cap Index, which would mean only two consecutive years of profit growth. On the other hand, we forecast 0.7% growth in net profits at companies in Russell/Nomura Large Cap Index (ex financials), which would mean a third straight year of growth in net profits (albeit only slight growth).

Overview of the FY19 corporate earnings outlook

For FY19, our analysts look for sales growth of 1.8% y-y and recurring profit growth of 7.5% for companies in the Russell/Nomura Large Cap Index (ex financials). Our forex assumptions for FY19 are USD/JPY of 108.0 (previously 111.0) and EUR/JPY of 123.0 (previously 128.0). While these forecasts call for recurring profit growth in the high single digits, they call for net profit growth of just 1.5%.

The current forecasts represent downward revisions of 1.2ppt for sales growth and 2.2ppt for recurring profit growth, versus our previous forecasts. Our overall forecast for FY19 recurring profits was revised down by ¥2,626.5bn, which is much larger than the downward revision to our overall forecast for FY18 recurring profits.

If our FY19 forecast proves accurate, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) would rise for an eighth straight fiscal year. For this to happen, however, companies will need to overcome the current drop in profits in a short period of time.

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	6.4	1.8	6.7	3.0
	Manufacturing	181	0.2	-4.3	9.3	3.2	1.6	3.9	3.2
	Basic materials	41	-9.0	-5.6	17.1	7.3	-1.0	8.9	0.3
	Processing	84	3.1	-4.4	7.9	1.8	1.8	2.6	3.7
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	11.2	2.1	10.8	2.8
	Russell/Nomura Small Cap (ex financials)	1,133	1.8	-0.5	6.1	4.9	3.7	5.1	3.8
Operating profits	Russell/Nomura Large Cap (ex financials)	303	8.7	2.9	16.3	3.8	5.4	6.4	7.8
	Manufacturing	181	2.9	-0.5	17.8	1.6	8.3	8.5	8.3
	Basic materials	41	8.6	9.4	34.9	2.1	3.5	10.4	2.7
	Processing	84	-2.0	-3.6	15.9	0.8	10.3	8.5	10.4
	Nonmanufacturing (ex financials)	122	18.6	7.5	14.3	6.7	1.8	3.6	7.1
	Russell/Nomura Small Cap (ex financials)	1,133	10.5	7.2	6.8	2.3	10.5	4.9	10.5
Recurring profits	Russell/Nomura Large Cap	334	-0.6	1.4	15.3	3.8	7.1	7.6	8.8
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	5.0	7.5	8.9	9.7
	Manufacturing	181	-1.9	0.2	21.6	0.1	9.2	9.7	7.0
	Basic materials	41	-7.4	12.1	43.6	3.9	2.4	12.5	1.9
	Processing	84	-4.2	-3.1	19.6	-1.3	12.3	9.7	9.0
	Nonmanufacturing	153	0.6	2.5	9.7	7.6	5.1	5.5	10.7
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	12.0	5.2	7.8	13.5
	Russell/Nomura Small Cap	1,227	3.7	5.8	9.0	1.7	10.1	4.3	9.5
Net profits	Russell/Nomura Large Cap (ex financials)	1,133	4.1	8.8	8.4	3.6	9.3	6.1	9.1
	Russell/Nomura Large Cap	334	-3.9	8.5	32.2	-0.8	2.4	1.9	5.0
	Russell/Nomura Large Cap (ex financials)	303	-4.7	10.8	38.5	0.7	1.5	3.1	5.2
	Manufacturing	181	-4.8	-1.5	53.1	-3.4	1.4	4.9	-0.2
	Basic materials	41	-27.1	58.4	49.6	2.3	0.1	12.3	-3.2
	Processing	84	-3.0	-14.0	68.5	-5.1	1.2	3.6	-0.3
	Nonmanufacturing	153	-3.0	18.2	15.1	2.1	3.4	-1.4	11.0
	Nonmanufacturing (ex financials)	122	-4.6	30.9	20.4	7.1	1.8	0.2	14.2
	Russell/Nomura Small Cap	1,227	1.9	17.3	14.5	3.1	11.5	7.3	8.1
Russell/Nomura Small Cap (ex financials)	1,133	0.0	21.7	10.1	6.4	12.4	10.4	9.0	

Note: Latest estimates as of 25 February 2019; previous estimates as of 26 November 2018.

Source: Nomura

Fig. 2: Major assumptions

As of 18 January 2019						As of 18 October 2018				
	Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)		Industrial production 2010 base year % y-y	Policy rate (FY-end) %	WTI \$/bbl	Exchange rate (avg)	
				USD/JPY	EUR/JPY				USD/JPY	EUR/JPY
FY17	4.1	-0.1	53.7	110.8	129.7	4.1	-0.1	53.7	110.8	129.7
FY18E	0.4	-0.1	61.5	110.4	127.9	-0.1	-0.1	69.3	110.7	129.0
FY19E	0.7	-0.1	50.0	108.0	123.0	0.5	-0.1	70.0	111.0	128.0
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	0.5	-0.1	68.7	110.3	129.9	Estimate 0.7	-0.1	68.7	110.3	129.9
FY18E H2	0.3	-0.1	54.4	110.4	125.8	-0.8	-0.1	70.0	111.0	128.0
FY19E H1	1.3	-0.1	50.0	108.0	123.0	0.0	-0.1	70.0	111.0	128.0
FY19E H2	0.1	-0.1	50.0	108.0	123.0	1.0	-0.1	70.0	111.0	128.0

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, our analysts project that recurring profits will increase in 11 of 19 sectors and decrease in 8.

Sectors expected to make particularly large contributions to overall profit growth include telecommunications, trading companies, electrical machinery & precision equipment, and chemicals. We expect SoftBank Group [9984] to contribute substantially to the sharp increase in the telecoms sector. SoftBank Group's earnings are being pushed up by the expanded size of its investment fund business and by earnings related to derivatives, and when excluding SoftBank Group, we expect the sector to see only slight profit growth (recurring profits up 3.3%). In the trading companies sector, resource businesses are faring well, with the price of crude oil up again and coal prices also elevated. We also expect profits to increase in non-resource businesses, namely pulp and autos-related business. In the electrical machinery & precision equipment sector, profit growth is being supported by electronic parts, where trends are favorable for products such as MLCCs for automotive applications, and by semiconductor production equipment (SPE), where there is a large backlog of orders. Some companies in the sector are expected to see sharp profit growth owing to factors such as a dropping out of restructuring costs and equity-method gains, but we are also starting to see some companies booking impairment losses or carrying out structural reforms in response to the deteriorating business environment. In the chemicals sector, factors contributing substantially to profit growth include favorable trends for semiconductor silicon and graphite electrodes and the rise in crude oil prices.

Sectors contributing substantially to profit declines include autos, financials, and utilities. In the autos sector, global autos sales in 2018 were down 0.6% at 95.61mn vehicles. The bulk of the expected profit decline is from unrealized losses on equity securities booked at Toyota Motor [7203] in Q3 due to changes to the market value of its stock holdings. Its earnings are also being heavily impacted by its efforts to deal with quality issues and improper inspections. The financials sector is being impacted by impairment losses in the securities subsector. In the utilities sector, earnings are being weighed down by a rise in fuel expenses and intensified competition arising from the deregulation of the retail electricity and gas market.

Overview of the FY19 corporate earnings outlook

For FY19, our analysts project that recurring profits will increase in 17 of 19 sectors and decrease in 2.

Sectors expected to make large contributions to overall profit growth include automobiles, electrical machinery & precision equipment, utilities, and financials. We expect the autos sector to benefit from the winding down of the impact from the improper inspection scandal and a dropping out of unrealized losses on equity securities booked in FY18. We expect global autos sales to fall 1.6% y-y in 2019 for a second year of decline, but expect the markets in Japan, the US, and ASEAN region to be relatively stable. The Japanese autos sector should be able to achieve profit growth, in our view, owing in part to cheaper inputs. We believe the aftermarket tire market in more economically developed countries (MEDCs) will be firm in 2019 as well, particularly the market for large-diameter tires. In the electrical machinery & precision equipment sector, we expect earnings to improve in infrastructure businesses. We also see smarter devices using sensors and computing power and the shift to robot-controlled electric drivetrains as growth areas, and expect the benefits of structural reforms to materialize to some extent. We expect the utilities sector to reap the benefits of cheaper fuel costs. In the financials sector, we expect a dropping out of the impact from impairment losses.

We expect a large negative contribution to profits from the telecoms and media sectors. For telecoms, the negative impact is seen as more of a backlash as forecasts for the SoftBank Vision Fund and Delta Fund segment are not included in SoftBank Group's earnings forecasts. For the media sector as well, the bulk of the expected profit decline is from the dropping out of one-time profits, including gains on the sale of affiliate stock and the sale of securities in FY18. Aside from this, we expect movie businesses to perform favorably, as many of the Japanese and Western movies in the pipeline look like they could be hits. We also expect structural reform costs to decline in Japanese advertising businesses as well.

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)
11 sectors				17 sectors			
Telecommunications	47.0	89.2	80.2	Automobiles	14.2	26.9	29.6
Trading companies	15.5	24.3	21.8	Electrical machinery, precision equipment	12.8	19.4	21.4
Electrical machinery, precision equipment	5.2	14.8	13.3	Utilities	34.6	9.5	10.4
Chemicals	5.7	12.3	11.1	Financials	4.7	9.2	-
Machinery	7.6	10.1	9.1	Software	27.6	5.3	5.8
Retailing	8.2	6.5	5.8	Machinery	6.6	4.8	5.3
Software	17.2	5.0	4.5	Transportation	6.2	4.4	4.9
Household goods	7.6	3.2	2.9	Food	8.9	4.1	4.5
Pharmaceuticals, healthcare	3.1	2.7	2.4	Trading companies	4.3	4.0	4.4
Media	2.9	0.6	0.5	Housing, real estate	6.8	3.9	4.3
Transportation	0.1	0.2	0.2	Services	8.4	3.9	4.3
				Retailing	6.7	3.1	3.4
				Household goods	12.4	2.9	3.2
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
8 sectors				2 sectors			
Services	-1.6	-1.5	-1.3	Media	-10.9	-1.1	-1.2
Steel, nonferrous metals	-2.4	-1.5	-1.3	Telecommunications	-4.7	-6.6	-7.3
Housing, real estate	-1.9	-2.2	-2.0				
Construction	-7.9	-3.1	-2.8				
Food	-4.7	-4.4	-3.9				
Utilities	-14.5	-9.0	-8.1				
Financials	-2.9	-11.3	-				
Automobiles	-8.8	-36.0	-32.4				

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 4 of 19 sectors and lowered them for 15.

The largest upward revisions are in the telecommunications, services, and media sectors. In the telecommunications sector, we expect competition over mobile phone prices to escalate, but expect this to be more than offset by the positive impact from SoftBank Group's investment fund business. In the services sector, postal and logistics businesses have made progress with price hikes and with managing costs. Earnings have also been higher than expected in temporary staffing operations, particularly those in Japan. In the media sector, profits are getting a major boost from gains on the sale of shares in associates and gains on the sale of real estate.

Sectors for which our analysts have made large downward revisions include automobiles, electrical machinery & precision equipment, and chemicals. In the automobiles sector, the bulk of the downward revision is to reflect unrealized losses on equity securities at Toyota Motor. Other factors at play include revisions to our forex assumptions in the direction of a stronger yen, a slump in US and European sales at some automakers, and a slowdown in demand for auto parts from overseas automakers. For electrical machinery & precision equipment, the downward revision mainly reflects one-time factors (the booking of impairment losses), a deterioration in the business environment in China due to a slowdown in consumer spending in China and trade friction between the US and China, a slowdown in smartphone shipments, and a drop in NAND flash prices. In the chemicals sector, the downward revision reflects deterioration in domestic refining margins due to the drop in the price of oil, deterioration in petrochemical market prices, and valuation losses on input inventories. The negative impact from reduced MMA output as a result of the economic slowdown in China also had a particularly large negative impact.

Overview of the FY19 corporate earnings outlook

We have raised our FY19 recurring profit forecasts for 2 of 19 sectors and lowered them for 17.

The upward revision for the utilities sector is particularly large. In the utilities sector, we have revised our forecasts to reflect earnings improvement under the fuel cost adjustment system as we have lowered our oil price assumption and revised our forex assumptions in the direction of a stronger yen.

Sectors for which our analysts have made large downward revisions include electrical machinery & precision equipment, telecommunications, automobiles and chemicals. For the electrical machinery & precision equipment sector, we have factored in a slowdown in consumer spending in China and in smartphone shipments, as well as deterioration in memory prices. Semiconductor manufacturers have been dialing back their capital spending and we expect the recovery in the SPE market to be delayed. For autos-related businesses, we take into account the heavy burden from software development and trends for key customers (automakers). For automobiles, the downward revision is largely due to the change in our forex assumptions to reflect yen appreciation. For the telecommunications sector, we forecast a drop in mobile phone prices in FY19. In the chemicals sector, we expect margins for various products to deteriorate due to a drop in the price of crude oil and an economic slowdown in China.

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

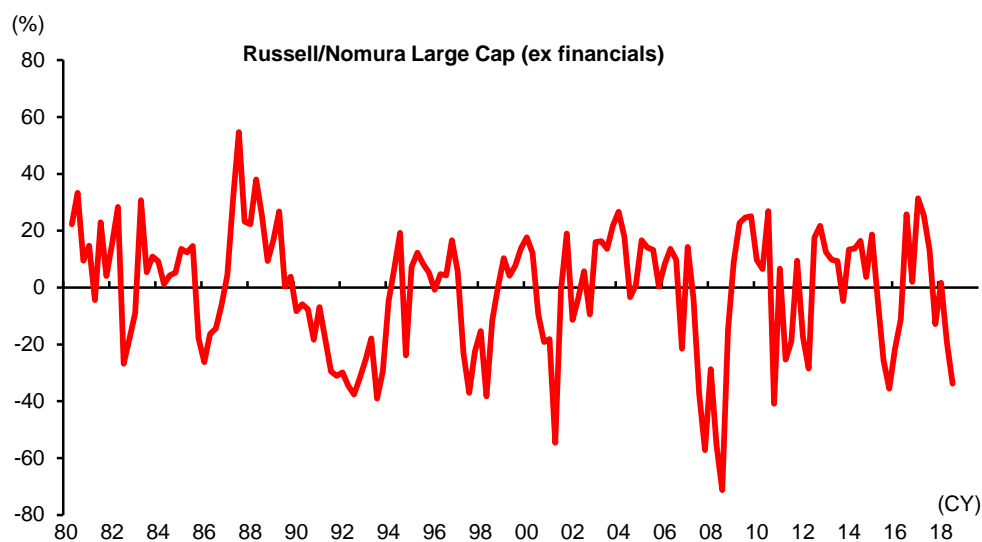
FY18E					FY19E				
[Upward revisions] 4 sectors					[Upward revisions] 2 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Telecommunications	5,083	4,203	880	20.9	Utilities	1,310	1,208	102	8.4
Services	1,645	1,593	52	3.3	Services	1,814	1,795	19	1.1
Media	359	313	46	14.7					
Utilities	973	960	13	1.4					
[Downward revisions] 15 sectors					[Downward revisions] 17 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Housing, real estate	2,071	2,077	-5	-0.3	Housing, real estate	2,212	2,220	-8	-0.4
Software	623	652	-29	-4.4	Software	867	877	-9	-1.0
Retailing	1,567	1,602	-35	-2.2	Food	1,773	1,783	-11	-0.6
Construction	649	686	-38	-5.5	Media	320	335	-15	-4.6
Household goods	835	875	-39	-4.5	Construction	730	747	-17	-2.3
Steel, nonferrous metals	1,079	1,129	-50	-4.4	Household goods	939	967	-27	-2.8
Transportation	2,425	2,499	-74	-3.0	Transportation	2,715	2,743	-28	-1.0
Food	1,609	1,687	-78	-4.6	Steel, nonferrous metals	1,111	1,140	-29	-2.5
Pharmaceuticals, healthcare	1,646	1,749	-103	-5.9	Trading companies	3,435	3,493	-58	-1.7
Trading companies	3,294	3,400	-106	-3.1	Retailing	1,726	1,808	-82	-4.5
Machinery	2,587	2,719	-132	-4.9	Financials	7,228	7,387	-158	-2.1
Financials	6,910	7,130	-220	-3.1	Pharmaceuticals, healthcare	1,654	1,819	-165	-9.1
Chemicals	4,166	4,550	-384	-8.4	Machinery	2,760	2,954	-194	-6.6
Electrical machinery, precision equipment	5,423	6,068	-644	-10.6	Chemicals	4,458	4,832	-374	-7.7
Automobiles	6,803	7,680	-877	-11.4	Automobiles	7,722	8,203	-481	-5.9
					Telecommunications	4,783	5,405	-622	-11.5
					Electrical machinery, precision equipment	6,085	6,713	-627	-9.3

Note: Latest estimates as of 25 February 2019; previous estimates as of 26 November 2018.

Source: Nomura

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

	(yy/m)	17/6	17/9	17/12	18/3	18/6	18/9	18/12	19/3
Russell/Nomura Large Cap		1.5	27.5	23.7	14.4	-11.4	0.9	-17.4	-31.4
Russell/Nomura Large Cap (ex financials)		2.0	31.5	25.5	13.2	-12.9	1.7	-19.1	-33.8
Manufacturing		-6.8	42.6	24.4	13.3	-23.8	7.2	-26.0	-47.8
Basic materials		5.1	56.4	28.2	26.8	-17.1	9.8	-36.6	-42.9
Processing		-26.3	53.8	26.3	17.9	-33.3	14.3	-29.8	-57.8
Nonmanufacturing (ex financials)		14.3	15.9	27.0	13.1	3.3	-6.6	-9.0	-14.1



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	FY15	FY16	FY17	FY18E Old	FY18E New	FY19E Old	FY19E New
	Russell/Nomura Large Cap (ex financials)	303	-0.4	-3.3	8.2	6.7	6.4	3.0	1.8
Industrial groups	Manufacturing	181	0.2	-4.3	9.3	3.9	3.2	3.2	1.6
	Basic materials	41	-9.0	-5.6	17.1	8.9	7.3	0.3	-1.0
	Processing	84	3.1	-4.4	7.9	2.6	1.8	3.7	1.8
	Nonmanufacturing (ex financials)	122	-1.2	-1.8	6.7	10.8	11.2	2.8	2.1
Broad sectors	Materials	41	-9.0	-5.6	17.1	8.9	7.3	0.3	-1.0
	Machinery, autos	46	5.7	-3.1	9.0	3.0	2.5	3.6	1.6
	Electronics	38	-0.9	-6.3	6.0	2.0	0.5	4.0	2.0
	Consumer, distribution	95	-1.4	-2.2	6.7	15.0	15.6	3.6	2.9
	Information	23	5.7	0.1	6.3	3.3	3.8	3.2	2.4
	Utilities, infrastructure	60	-1.3	-2.5	6.0	2.6	2.9	2.6	2.1
Sectors	Chemicals	31	-9.9	-5.8	18.0	10.6	8.4	-0.5	-2.2
	Steel, nonferrous metals	10	-6.8	-5.1	15.0	5.3	4.9	2.5	2.3
	Machinery	26	3.3	-2.9	13.9	4.2	3.8	3.6	2.6
	Autos	20	6.5	-3.2	7.7	2.7	2.2	3.6	1.3
	Electrical machinery, precision equipment	38	-0.9	-6.3	6.0	2.0	0.5	4.0	2.0
	Pharmaceuticals, healthcare	24	5.2	-2.7	3.2	1.1	3.5	9.8	8.2
	Food products	19	1.6	-1.8	6.7	2.4	2.2	2.1	1.2
	Household goods	13	6.0	-4.1	7.5	3.3	3.5	5.3	5.3
	Trading companies	7	-9.7	-4.6	13.1	43.1	44.8	1.9	1.7
	Retailing	18	7.3	2.2	5.1	5.9	4.8	5.1	3.0
	Services	14	4.1	-2.7	0.7	1.0	1.0	2.0	2.0
	Software	9	-0.1	2.9	20.8	11.8	10.5	9.7	7.6
	Media	5	12.0	-1.3	5.3	4.7	6.7	2.2	2.0
	Telecommunications	9	5.5	0.0	4.7	2.0	2.6	2.3	1.7
	Construction, engineering	6	1.7	0.2	1.9	6.7	7.1	2.3	4.0
	Housing, real estate	19	4.3	5.1	5.1	5.4	5.5	3.3	3.2
	Transportation	24	0.3	-3.1	5.8	-1.5	-1.4	2.2	2.2
Utilities	11	-7.7	-8.2	8.5	3.2	4.0	2.4	0.1	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2019; previous estimates as of 26 November 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	7.6	3.8	8.8	7.1
	Russell/Nomura Large Cap (ex financials)	303	1.5	3.6	17.5	8.9	5.0	9.7	7.5
	Manufacturing	181	-1.9	0.2	21.6	9.7	0.1	7.0	9.2
	Basic materials	41	-7.4	12.1	43.6	12.5	3.9	1.9	2.4
	Processing	84	-4.2	-3.1	19.6	9.7	-1.3	9.0	12.3
	Nonmanufacturing	153	0.6	2.5	9.7	5.5	7.6	10.7	5.1
	Nonmanufacturing (ex financials)	122	7.1	8.4	12.2	7.8	12.0	13.5	5.2
Broad sectors	Materials	41	-7.4	12.1	43.6	12.5	3.9	1.9	2.4
	Machinery, autos	46	1.9	-13.0	16.5	5.5	-4.8	7.7	12.1
	Electronics	38	-19.7	27.8	26.1	17.8	5.2	11.3	12.8
	Consumer, distribution	95	-7.6	19.8	14.8	8.7	5.6	6.4	6.4
	Information	23	4.3	0.2	6.1	19.1	39.8	28.3	-1.4
	Utilities, infrastructure	60	37.3	-3.8	9.6	-2.4	-4.0	9.0	10.9
	Financials	31	-8.6	-8.1	4.4	0.2	-2.9	3.7	4.7
Sectors	Chemicals	31	21.6	16.1	34.2	15.4	5.7	1.8	2.2
	Steel, nonferrous metals	10	-54.6	-5.5	93.4	2.0	-2.4	2.2	3.2
	Machinery	26	-6.6	-17.9	29.3	13.2	7.6	8.7	6.6
	Autos	20	4.7	-11.6	12.9	3.0	-8.8	7.4	14.2
	Electrical machinery, precision equipment	38	-19.7	27.8	26.1	17.8	5.2	11.3	12.8
	Pharmaceuticals, healthcare	24	39.2	-5.4	5.9	9.5	3.1	6.3	2.8
	Food products	19	-0.5	8.3	4.8	-0.2	-4.7	4.6	8.9
	Household goods	13	3.3	5.8	20.8	13.1	7.6	10.5	12.4
	Trading companies	7	-62.2	233.4	31.2	19.2	15.5	2.7	4.3
	Retailing	18	13.4	-1.4	12.4	10.6	8.2	9.7	6.7
	Services	14	-5.6	-9.6	10.9	-4.7	-1.6	10.3	8.4
	Software	9	-11.4	21.1	44.2	22.6	17.2	23.3	27.6
	Media	5	10.4	-1.0	9.6	-10.3	2.9	7.1	-10.9
	Telecommunications	9	5.6	-1.4	1.4	21.5	47.0	30.8	-4.7
	Construction, engineering	6	92.4	30.5	9.8	-2.6	-7.9	4.5	7.2
	Housing, real estate	19	11.3	22.4	9.9	-1.7	-1.9	6.9	6.8
	Transportation	24	13.3	-5.2	9.0	3.2	0.1	5.7	6.2
	Utilities	11	146.7	-36.2	10.2	-15.6	-14.5	25.8	34.6
Financials	31	-8.6	-8.1	4.4	0.2	-2.9	3.7	4.7	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2019; previous estimates as of 26 November 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	51,568	49,746	56,427	53,642
	Russell/Nomura Large Cap (ex financials)	303	32,151	34,408	40,521	44,438	42,836	49,040	46,414
	Manufacturing	181	19,524	19,641	23,855	26,455	24,148	28,410	26,502
	Basic materials	41	3,177	3,551	4,971	5,678	5,245	5,972	5,569
	Processing	84	12,880	12,524	14,790	16,466	14,813	17,869	16,567
	Nonmanufacturing	153	20,146	21,698	23,826	25,113	25,598	28,017	27,140
	Nonmanufacturing (ex financials)	122	12,627	14,766	16,666	17,983	18,688	20,630	19,912
Broad sectors	Materials	41	3,177	3,551	4,971	5,678	5,245	5,972	5,569
	Machinery, autos	46	9,835	8,528	9,755	10,399	9,390	11,157	10,482
	Electronics	38	3,045	3,996	5,035	6,068	5,423	6,713	6,085
	Consumer, distribution	95	6,048	8,630	10,162	10,905	10,596	11,665	11,341
	Information	23	4,087	3,999	4,317	5,168	6,065	6,617	5,971
	Utilities, infrastructure	60	5,959	5,704	6,280	6,221	6,117	6,917	6,966
	Financials	31	7,519	6,931	7,160	7,130	6,910	7,387	7,228
Sectors	Chemicals	31	2,583	3,002	3,911	4,550	4,166	4,832	4,458
	Steel, nonferrous metals	10	594	549	1,061	1,129	1,079	1,140	1,111
	Machinery	26	2,264	1,813	2,336	2,719	2,587	2,954	2,760
	Autos	20	7,571	6,716	7,419	7,680	6,803	8,203	7,722
	Electrical machinery, precision equipment	38	3,045	3,996	5,035	6,068	5,423	6,713	6,085
	Pharmaceuticals, healthcare	24	1,578	1,465	1,616	1,749	1,646	1,819	1,654
	Food products	19	1,383	1,487	1,723	1,687	1,609	1,783	1,773
	Household goods	13	507	613	755	875	835	967	939
	Trading companies	7	657	2,192	2,852	3,400	3,294	3,493	3,435
	Retailing	18	1,386	1,435	1,545	1,602	1,567	1,808	1,726
	Services	14	538	1,437	1,671	1,593	1,645	1,795	1,814
	Software	9	352	341	564	652	623	877	867
	Media	5	322	318	349	313	359	335	320
	Telecommunications	9	3,414	3,339	3,404	4,203	5,083	5,405	4,783
	Construction, engineering	6	462	617	664	686	649	747	730
	Housing, real estate	19	1,604	1,845	2,054	2,077	2,071	2,220	2,212
	Transportation	24	2,267	2,204	2,450	2,499	2,425	2,743	2,715
Utilities	11	1,627	1,038	1,112	960	973	1,208	1,310	
Financials	31	7,519	6,931	7,160	7,130	6,910	7,387	7,228	

Note: Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 February 2019; previous estimates as of 26 November 2018.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY17 Q4–FY18 Q3)

		% y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	2.3	14.5	6.3	-17.6	39.5	22.5	11.5	-27.8
	Russell/Nomura Large Cap (ex financials)	5.6	8.3	7.5	5.9	-0.2	11.3	4.8	-6.5	0.2	16.9	9.8	-17.2	42.0	26.9	15.8	-28.0
	Manufacturing	6.3	6.1	3.9	2.1	-9.6	12.6	4.7	-10.5	-8.8	16.7	5.9	-25.9	50.1	36.8	16.5	-39.5
	Basic materials	12.5	11.3	10.5	7.2	11.8	29.7	10.8	-26.3	13.5	31.5	14.4	-27.6	8.8	40.6	18.9	-36.9
	Processing	4.5	5.2	2.2	0.6	-20.5	13.0	2.4	-6.5	-20.1	18.8	3.7	-29.4	65.6	52.7	15.9	-44.1
	Nonmanufacturing	-	-	-	-	-	-	-	-	19.5	12.3	6.6	-9.4	26.6	7.8	6.7	-15.0
	Nonmanufacturing (ex financials)	4.6	11.6	12.6	11.7	18.5	9.8	4.8	-0.8	20.9	17.3	15.0	-5.2	27.0	11.4	14.8	-10.8
Broad sectors	Basic materials	12.5	11.3	10.5	7.2	11.8	29.7	10.8	-26.3	13.5	31.5	14.4	-27.6	8.8	40.6	18.9	-36.9
	Machinery, autos	4.9	5.6	2.0	2.5	11.7	8.2	-3.4	-8.8	8.9	9.4	0.8	-31.0	4.9	6.3	7.3	-53.0
	Electronics	4.0	4.4	2.5	-2.4	-52.2	23.1	11.2	-2.8	-50.0	40.1	8.3	-26.7	384.5	160.0	32.0	-22.7
	Consumption, distribution	4.4	15.9	16.4	14.9	12.9	7.4	3.7	-7.0	13.0	7.7	3.6	-7.5	83.8	6.7	10.4	-14.5
	Information	3.0	3.0	4.4	3.3	29.2	18.9	21.7	18.8	64.1	46.7	62.0	0.8	-50.9	51.8	63.3	-13.2
	Utilities, infrastructure	6.1	2.7	4.0	4.0	25.7	-6.2	-5.9	-7.7	27.6	-6.0	-6.0	-9.7	140.8	-21.6	-7.6	-9.7
	Financials	-	-	-	-	-	-	-	-	16.6	1.6	-14.9	-19.7	25.9	0.7	-13.5	-26.4
Sectors	Chemicals	13.9	12.2	13.0	7.8	12.8	41.7	13.9	-28.3	12.9	45.4	16.7	-31.4	25.2	58.4	17.6	-42.9
	Steel, nonferrous metals	9.5	9.2	4.8	5.8	8.4	-7.3	-4.2	-18.2	15.8	-4.2	3.7	-12.9	-43.8	5.1	24.4	-16.3
	Machinery	9.6	7.1	4.0	2.4	8.6	16.0	9.1	-4.5	1.3	18.5	3.1	-7.7	-8.9	15.0	1.1	-0.8
	Automobiles	3.5	5.1	1.5	2.5	12.9	5.7	-8.1	-10.2	11.4	6.8	0.1	-38.6	10.1	3.9	9.5	-62.7
	Electrical machinery, precision equipment	4.0	4.4	2.5	-2.4	-52.2	23.1	11.2	-2.8	-50.0	40.1	8.3	-26.7	384.5	160.0	32.0	-22.7
	Pharmaceuticals, healthcare	3.2	2.2	0.2	1.3	72.7	-11.8	9.2	2.7	73.9	-12.7	8.6	-4.6	64.9	-9.1	21.4	-15.2
	Food products	7.3	2.5	2.5	0.2	5.6	-6.9	3.1	-15.3	11.6	-5.4	-0.2	-19.2	18.0	-24.4	-1.3	-19.3
	Household goods	7.3	5.3	3.3	2.9	37.1	23.4	2.4	2.4	33.1	24.7	3.5	-3.6	42.9	26.9	60.5	-45.2
	Trading companies	5.7	46.6	47.2	42.7	22.6	30.2	3.6	-8.7	18.5	27.0	3.9	-3.4	4.7	30.8	-3.2	-8.5
	Retailing	4.5	5.4	6.3	6.0	0.2	13.8	-0.5	-2.8	-1.2	14.4	2.0	-2.6	-7.2	26.3	5.1	-5.6
	Services	0.2	0.6	2.9	2.1	-6.5	3.0	3.3	-14.4	-7.1	3.2	4.3	-12.6	SP	12.6	38.8	-11.2
	Software	3.3	1.2	5.8	17.5	18.9	-3.3	1.8	23.6	-2.3	-1.4	4.1	12.4	44.4	1.1	-12.7	20.1
	Media	3.5	5.2	4.5	6.1	-9.8	29.0	-8.2	-13.4	1.8	-7.8	73.8	-19.6	-2.0	-22.9	113.5	-31.2
	Telecommunications	2.9	3.0	4.2	0.9	36.0	20.4	25.0	21.9	119.3	57.1	68.5	1.1	-58.0	67.0	73.6	-15.3
	Construction, engineering	-2.4	2.5	7.7	9.4	13.1	-25.7	3.7	-5.8	16.8	-23.0	7.3	-6.4	16.7	-21.2	1.7	-3.4
	Housing, real estate	8.7	7.1	4.6	3.4	18.3	0.5	6.2	-11.5	26.0	1.2	7.1	-11.8	44.2	-0.6	11.0	-11.7
	Transportation	4.0	-0.4	-1.4	-0.3	-3.2	0.9	-0.3	7.9	-13.0	-2.6	-1.7	5.9	-17.5	-15.8	-3.7	1.4
	Utilities	9.4	2.5	8.3	7.8	1,611.8	-22.1	-29.1	-52.8	SP	-15.6	-29.7	-60.4	SP	-50.2	-35.9	-62.0
	Financials	-	-	-	-	-	-	-	-	16.6	1.6	-14.9	-19.7	25.9	0.7	-13.5	-26.4

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 25 February 2019. (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			
		FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY17	FY18E	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	13.6	13.2	12.4	-	-	-	1.34	1.25	2.35	2.46	2.61	10.3	9.5	9.3	9.4
	Russell/Nomura Large Cap (ex loss-making cos)	13.4	13.1	12.3	-	-	-	1.34	1.26	2.36	2.47	2.62	10.5	9.7	9.3	9.4
	Russell/Nomura Large Cap (ex financials)	14.2	14.0	13.1	8.1	7.9	7.5	1.53	1.42	2.25	2.35	2.50	11.2	10.4	10.0	10.0
	Manufacturing	14.7	14.4	13.0	8.8	8.4	7.8	1.60	1.50	2.35	2.46	2.63	11.9	10.6	10.1	10.5
	Basic materials	10.6	10.3	9.7	5.4	5.2	5.0	0.99	0.94	2.93	2.97	3.12	9.7	9.2	9.0	9.0
	Processing	12.8	12.8	11.5	7.9	7.8	7.2	1.48	1.40	2.47	2.56	2.77	12.8	11.2	10.7	11.1
	Nonmanufacturing	12.4	12.0	11.7	-	-	-	1.12	1.04	2.35	2.46	2.59	9.0	8.7	8.7	8.3
	Nonmanufacturing (ex financials)	13.5	13.3	13.3	7.2	7.1	7.0	1.44	1.32	2.10	2.19	2.30	10.2	10.2	9.8	9.2
Broad sectors	Basic materials	10.6	10.3	9.7	5.4	5.2	5.0	0.99	0.94	2.93	2.97	3.12	9.7	9.2	9.0	9.0
	Machinery, autos	12.3	11.0	10.1	7.4	6.9	6.4	1.25	1.20	3.04	3.13	3.39	12.5	10.0	10.6	10.9
	Electronics	13.6	15.9	13.9	8.6	9.2	8.4	1.94	1.77	1.74	1.83	1.99	13.3	13.6	10.8	11.4
	Consumption, distribution	20.0	18.8	17.1	12.8	11.8	11.0	1.89	1.74	2.06	2.15	2.26	9.6	9.1	9.1	9.5
	Information	11.1	12.8	14.6	5.7	6.1	6.3	1.76	1.54	2.17	2.37	2.54	13.3	14.7	11.9	9.9
	Utilities, infrastructure	14.1	12.7	12.3	6.6	6.3	6.2	1.31	1.23	1.85	1.94	2.00	10.1	9.0	9.4	9.1
	Financials	9.4	8.6	8.0	-	-	-	0.60	0.57	3.29	3.53	3.73	7.2	6.2	6.7	6.8
Sectors	Chemicals	10.9	10.5	9.9	6.1	5.7	5.5	1.12	1.07	2.85	2.92	3.06	11.0	10.1	9.9	9.7
	Steel, nonferrous metals	9.5	9.6	8.9	3.9	3.9	3.7	0.68	0.66	3.22	3.15	3.38	6.8	7.1	6.8	7.0
	Machinery	16.2	15.5	14.1	10.0	9.7	9.1	1.61	1.56	2.41	2.16	2.32	9.9	9.8	9.8	10.0
	Automobiles	10.9	9.6	8.8	6.5	6.0	5.5	1.12	1.07	3.37	3.64	3.96	13.4	10.1	10.9	11.2
	Electrical machinery, precision equipment	13.6	15.9	13.9	8.6	9.2	8.4	1.94	1.77	1.74	1.83	1.99	13.3	13.6	10.8	11.4
	Pharmaceuticals, healthcare	30.1	32.0	25.6	19.2	16.5	15.0	2.88	2.27	1.90	1.94	1.98	9.6	8.5	7.1	8.6
	Food products	19.8	18.8	17.3	12.0	11.5	10.9	2.09	2.13	2.34	2.72	2.90	12.9	10.7	10.9	11.0
	Household goods	31.2	25.7	23.1	21.2	18.1	16.4	4.30	4.06	1.24	1.36	1.48	14.1	13.3	15.1	15.3
	Trading companies	7.1	6.8	6.6	5.0	4.8	4.7	0.92	0.84	4.10	4.33	4.56	12.0	12.4	11.9	11.3
	Retailing	28.8	24.0	21.4	14.5	13.3	12.2	2.43	2.29	1.55	1.36	1.47	8.7	8.2	9.6	10.1
	Services	24.6	22.5	20.6	16.1	14.9	13.8	1.27	1.23	1.71	1.78	1.85	5.2	5.1	5.4	5.7
	Software	24.0	18.6	16.4	19.6	15.7	14.0	3.22	3.11	2.31	2.76	3.16	12.0	13.3	15.6	16.3
	Media	15.8	17.3	15.8	10.8	11.8	11.1	1.17	1.19	1.73	1.76	1.76	7.7	7.4	6.7	7.0
	Telecommunications	9.1	11.2	13.9	4.4	4.8	5.1	1.60	1.36	2.17	2.30	2.41	14.5	16.0	12.0	9.1
	Construction	9.4	9.2	8.9	8.2	8.1	7.9	1.35	1.17	2.65	2.86	2.96	16.8	13.0	12.4	11.7
	Housing, real estate	13.3	12.6	12.2	9.5	9.1	8.8	1.42	1.31	2.40	2.53	2.62	11.1	10.2	10.1	9.7
	Transportation	16.7	15.0	14.0	7.5	7.2	7.0	1.55	1.44	1.25	1.32	1.38	9.6	8.9	9.5	9.5
	Utilities	12.9	10.3	10.7	3.3	3.1	3.1	0.84	0.81	2.07	2.12	2.14	8.2	6.4	7.6	6.9
	Financials	9.4	8.6	8.0	-	-	-	0.60	0.57	3.29	3.53	3.73	7.2	6.2	6.7	6.8
	Russell/Nomura Small Cap		15.7	14.5	13.9	-	-	-	1.14	1.11	1.91	2.33	2.38	7.4	7.2	7.3
Russell/Nomura Small Cap (ex financials)		16.7	15.1	14.5	9.1	8.5	8.2	1.29	1.24	1.83	1.90	1.94	7.6	7.6	8.0	7.8

Note: Share prices and forecasts are as of 25 February 2019.

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.

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 As at 31 December 2018.

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