

Outlook for FY19-20 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY19 corporate earnings outlook

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

For FY19, our analysts forecast sales growth of 0.2% y-y and a recurring profit decline of 5.3% for companies in the Russell/Nomura Large Cap Index (ex financials). In our previous forecast (released in September 2019, collated as of 26 August 2019, same throughout), we forecast slight recurring profit growth, and now forecast a recurring profit decline as a result of downward revisions. If recurring profits were to decline, it would be the first time since FY11, eight years ago.

We lower our sales growth and recurring profit growth forecasts by 0.9ppt and 5.5ppt, respectively. In FY19 Q2, SoftBank Group [9984] recognized large losses in its investment business. The downward revision to our forecast for the company represented about 40% of our total downward revision to our recurring profit forecast. The revision index, which captures the trend in revisions to forecasts by our analysts in terms of the number of companies, was -16.9%, with downward revisions holding the advantage over upward revisions for the fifth straight quarter, an improvement of 9.1ppt from -26.1% last time. Our forex assumptions for FY19 are USD/JPY of 108.31 (previously 107.72) and EUR/JPY of 120.21 (previously 121.62), only slight changes. We thus think revisions to forecasts attributable to changes in forex assumptions for these two currencies were minimal.

In FY19 Q2, recurring profits at companies in the Russell/Nomura Large Cap Index (ex financials) fell 20.8% y-y on a 0.6% increase in sales. If we exclude SoftBank Group, in view of the reason stated earlier, recurring profits fell 9.7% y-y on a 0.7% increase in sales. Q1 sales and recurring profits excluding those for SoftBank Group rose 1.1% y-y and fell 15.0%, respectively. On this basis, sales growth slowed and the recurring profit decline narrowed.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts look for sales growth of 1.8% y-y and recurring profit growth of 9.3% for companies in the Russell/Nomura Large Cap Index (ex financials). Based on an assumption of a moderate economic recovery, they expect profit growth to be driven mainly by economically sensitive sectors, including electrical machinery, precision equipment; automobiles; chemicals; and machinery.

The forex assumptions used for FY20 are USD/JPY of 108.00 (previously 107.00) and EUR/JPY of 119.00 (previously 121.00).

From last time, our sales growth forecast was revised down by 0.1ppt and our recurring profit growth forecast was raised by 2.3ppt. We lowered our recurring profit forecast by ¥1,541.5bn, but raised our recurring profit growth forecast, mainly because we lowered our forecast for recurring profits in FY19 on which we base our comparison.

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

(% y-y, except where noted)

		No. of cos	New					Old	
			FY16	FY17	FY18	FY19E	FY20E	FY19E	FY20E
Sales	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	0.2	1.8	1.1	1.9
	Manufacturing	179	-4.3	9.3	3.0	-0.7	2.3	0.3	2.0
	Basic materials	41	-5.6	17.1	7.0	0.2	0.4	0.9	-0.7
	Processing	83	-4.4	7.9	1.7	-2.3	3.1	-1.0	3.0
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	1.4	1.2	2.1	1.7
	Russell/Nomura Small Cap (ex financials)	1,131	-0.5	6.1	4.6	2.2	3.0	3.0	3.0
Operating profits	Russell/Nomura Large Cap (ex financials)	307	2.9	16.3	3.6	-9.2	11.4	-3.7	8.8
	Manufacturing	179	-0.5	17.8	0.3	-8.9	14.5	-5.1	14.6
	Basic materials	41	9.4	34.9	0.1	-18.0	9.4	-13.4	13.2
	Processing	83	-3.6	15.9	0.2	-7.5	14.0	-2.3	11.9
	Nonmanufacturing (ex financials)	128	7.5	14.3	8.0	-9.5	7.7	-2.0	2.0
	Russell/Nomura Small Cap (ex financials)	1,131	7.2	6.8	-2.4	3.3	11.2	7.8	9.3
Recurring profits	Russell/Nomura Large Cap	333	1.4	15.3	1.1	-3.5	8.3	1.2	6.4
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	-5.3	9.3	0.2	7.0
	Manufacturing	179	0.2	21.6	-1.5	-9.1	16.1	-5.1	15.7
	Basic materials	41	12.1	43.6	2.1	-21.5	11.2	-14.9	13.2
	Processing	83	-3.1	19.6	-2.6	-6.0	15.3	-1.2	13.5
	Nonmanufacturing	154	2.5	9.7	3.7	1.8	1.7	7.1	-1.4
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	-0.4	1.4	6.9	-3.0
	Russell/Nomura Small Cap	1,227	5.8	9.0	-1.8	1.1	10.8	5.1	8.4
Russell/Nomura Small Cap (ex financials)	1,131	8.8	8.4	0.3	-0.1	11.8	4.8	9.4	
Net profits	Russell/Nomura Large Cap	333	8.5	32.2	-4.5	-7.5	9.0	-3.1	6.9
	Russell/Nomura Large Cap (ex financials)	307	10.8	38.5	-1.1	-11.8	11.0	-6.6	8.0
	Manufacturing	179	-1.5	53.1	-4.3	-17.8	18.6	-14.7	18.6
	Basic materials	41	58.4	49.6	0.9	-31.1	16.9	-22.8	15.4
	Processing	83	-14.0	68.5	-5.9	-16.3	16.9	-12.3	15.2
	Nonmanufacturing	154	18.2	15.1	-4.7	3.6	0.8	9.5	-2.9
	Nonmanufacturing (ex financials)	128	30.9	20.4	3.9	-3.3	1.8	5.0	-4.2
	Russell/Nomura Small Cap	1,227	17.3	14.5	-5.9	6.8	12.7	13.8	7.8
	Russell/Nomura Small Cap (ex financials)	1,131	21.7	10.1	-3.4	7.1	14.4	15.9	8.7

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

Source: Nomura

Fig. 2: Major assumptions

As of 17 October 2019						As of 18 July 2019				
	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
FY18	0.1	-0.10	62.8	110.90	128.40	0.1	-0.10	62.8	110.90	128.40
FY19E	-1.7	-0.10	56.6	108.31	120.21	-0.9	-0.10	60.0	107.72	121.62
FY20E	0.6	-0.10	55.0	108.00	119.00	0.5	-0.10	60.0	107.00	121.00
FY18 H1	0.5	-0.10	68.7	110.33	129.92	0.5	-0.10	68.7	110.33	129.92
FY18 H2	-0.3	-0.10	56.9	111.46	126.87	-0.3	-0.10	56.9	111.46	126.87
FY19E H1	Estimate -1.9	-0.10	58.1	108.61	121.41	-0.5	-0.10	59.9	108.45	122.25
FY19E H2	-1.5	-0.10	55.0	108.00	119.00	-1.3	-0.10	60.0	107.00	121.00
FY20E H1	0.3	-0.10	55.0	108.00	119.00	-0.2	-0.10	60.0	107.00	121.00
FY20E H2	1.0	-0.10	55.0	108.00	119.00	1.1	-0.10	60.0	107.00	121.00

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 FY19 corporate earnings outlook

For FY19, our analysts expect recurring profits to increase in 8 of 19 sectors and decrease in 11.

Sectors expected to contribute substantially to profit growth include financials; utilities; housing, real estate; retailing; and software.

In the financials sector, the profit growth stems in part from low profits in FY18, when the market environment was harsh, but earnings have also been bottoming in banks' non-retail client-facing operations. H1 results show that earnings from corporate business in Japan and elsewhere driven by debt capital market (DCM) and M&A-related operations held up well, in addition to earnings from market-related operations from gains on the sale of foreign bonds. In utilities, we expect improved gains/losses related to the fuel cost adjustment system. In the housing, real estate sector, the office building leasing market remains strong. Sales of condos appear to be stagnating, mainly in the Greater Tokyo area, but steady progress has been made with contracts for condos of major developers. In retailing, we expect margin improvement at companies, including through cost reductions and a focus on margins. In the software sector, appetite for IT investment has been strong, mainly in manufacturing and distributive/services industries, for the purpose of improving productivity and expanding sales.

Sectors expected to contribute substantially to profit decline include chemicals; electrical machinery, precision equipment; telecommunications; and steel, nonferrous metal.

In the chemicals sector, business conditions are harsh, chiefly in petrochemical products, as a result of US-China trade friction and a slowdown in the economy. In the electrical machinery, precision equipment sector, harsh conditions continue, mainly in economically sensitive businesses, owing to sluggish auto sales and capex. We forecast a decline in profits for the full year, though some signs of earnings recovery have emerged, including an upward revision to the capex plans of the largest logic semiconductor manufacturer. In the telecommunications sector, downward pressure has come from the rollout of new mobile pricing plans and upfront investments. SoftBank Group has booked more than ¥1trn in settlement gains on the forward purchase agreement in FY19, but the deterioration in earnings from investments by the investment fund business and by the company itself has exceeded this. In the steel, nonferrous metals sector, we expect export margins at blast furnace steelmakers to be unfavorable through the third quarter of 2019. The price of iron ore has been falling, but we do not expect the benefits of this to be seen until January 2020.

Overview of the FY20 corporate earnings outlook

For FY20, our analysts expect recurring profits to increase in 15 of 19 sectors and decrease in 4.

Sectors expected to contribute the most to profit growth include electrical machinery, precision equipment; pharmaceuticals, healthcare; automobiles; and chemicals.

In electrical machinery, precision equipment, we expect tailwinds from higher demand for 5G smartphones, uptake of which should pick up in 2020. We also expect a recovery in capex related to flash memory, followed by resumption of DRAM investment. In pharmaceuticals, healthcare, the effect of no more acquisition-related costs is big, but even excluding this factor, we expect solid profit growth throughout the sector. In automobiles, we expect profit growth on cost reductions and new car effects, although market conditions are likely to remain weak, with the exception of the US market. In chemicals, we forecast the largest contribution from the oil products subsector. We think LNG production growth will drive profit growth in addition to the effect of inventory valuation losses falling out of the picture.

Sectors expected to contribute to profit declines are telecommunications, utilities, trading companies, and construction.

In telecommunications, the dropping out of the picture of settlement gains on the contract to sell shares at SoftBank Group, discussed earlier, is a major factor. We forecast profit growth for the sector after adjusting for this factor. In utilities, downward pressure is likely to come from intensification of competitive conditions owing to deregulation of electricity/gas retail sales. In trading companies, we forecast profit declines mainly in resource businesses on the assumption that prices of coking coal, iron ore, and other commodities will be weak. We also expect the dropping out of the picture of one-time profits either booked already or expected to be booked in FY2019. In construction, we think competition for orders has become increasingly intense in very large projects with long construction periods.

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

FY19E				FY20E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
8 sectors				15 sectors			
Financials	8.0	29.6	-	Electrical machinery, precision equipment	23.8	30.7	32.3
Utilities	26.8	15.5	12.0	Pharmaceuticals, healthcare	43.8	16.7	17.6
Housing, real estate	6.2	7.4	5.7	Automobiles	9.9	16.1	16.9
Retailing	7.7	6.9	5.4	Chemicals	9.2	8.5	9.0
Software	17.5	6.9	5.3	Machinery	11.6	6.9	7.2
Household goods	4.2	2.0	1.6	Transportation	8.0	5.4	5.7
Construction	1.0	0.4	0.3	Financials	2.7	4.8	-
Transportation	0.1	0.2	0.1	Software	21.0	4.3	4.5
				Food	10.5	3.9	4.1
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
11 sectors				Services	7.4	3.2	3.4
Pharmaceuticals, healthcare	-1.7	-1.5	-1.2	Retailing	7.4	3.2	3.3
Trading companies	-0.9	-1.7	-1.3	Steel, nonferrous metals	27.3	3.1	3.2
Services	-1.7	-1.7	-1.3	Housing, real estate	5.3	3.0	3.1
Automobiles	-0.6	-2.3	-1.8	Household goods	12.2	2.7	2.9
Media	-23.4	-5.0	-3.8	Media	10.4	0.7	0.8
Food	-11.5	-11.0	-8.5				
Machinery	-9.3	-13.9	-10.7	Decrease in profits (%)			
Steel, nonferrous metals	-52.6	-28.4	-21.9	4 sectors			
Telecommunications	-12.1	-33.1	-25.6	Construction	-2.1	-0.4	-0.4
Electrical machinery, precision equipment	-10.6	-34.7	-26.8	Trading companies	-2.8	-2.2	-2.4
Chemicals	-14.7	-35.9	-27.7	Utilities	-12.4	-4.0	-4.2
				Telecommunications	-6.2	-6.6	-7.0

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY19 corporate earnings outlook

Our analysts have raised their FY19 recurring profit forecasts for 4 of 19 sectors and lowered them for 14.

Upward revisions were made to the pharmaceuticals, healthcare; utilities; software; and financials sectors.

In pharmaceuticals, healthcare, earnings were strong in Japan and overseas in Q2, and we factored in progress with SG&A cost controls and cost reductions. In utilities, we reflected profit improved under the fuel cost adjustment system resulting from lower oil price assumptions. In software, IT investment demand conditions and margin improvement at companies were better than expected. In the amusement subsector, unit sales of software exceeded our expectations owing to the launch of a smaller version of a mainstay game device. We made only slight revisions to our forecast for the financials sector.

We made the largest downward revisions to forecasts in terms of monetary value in the telecommunications; electrical machinery, precision equipment; trading companies, and automobile sectors.

In telecommunications, this mainly reflected losses on investments by the investment fund business and by the company itself at SoftBank Group in Q2. In electrical machinery, precision equipment, business conditions have worsened further, mainly in economically sensitive businesses, such as factory automation and power semiconductors for industry. Business conditions have been worsening for office equipment in response to customers' appetites for investment having been sapped and intensification of competitive conditions. We raised our forecasts for some subsectors, such as electronic parts and semiconductor production equipment, as we raise our outlook for demand for electronic parts used in smartphones and base stations and testers for processors, as uptake of 5G smartphones has exceeded expectations. In trading companies, we lower our forecasts for resource businesses in view of weak commodity prices. Coking coal prices have been falling and iron ore market prices have been weak on weaker than expected steel product market prices in China. In non-resource businesses, business conditions have been deteriorating in automotive and chemical product operations in response to slowing economic activity. In automobiles, we factor in weak tire sales, mainly overseas, deterioration in business conditions in India, and the effect of forex rates. New one-time expenses have also arisen, such as for large-scale recalls.

Overview of the FY20 corporate earnings outlook

Our analysts have raised their FY20 recurring profit forecasts for 4 of 19 sectors and lowered them for 14.

Upward revisions were made in the pharmaceuticals, healthcare; software; utilities; and housing, real estate sectors.

The background to our upward revisions in the pharmaceuticals, healthcare and software sectors is similar to that for our FY19 forecast revisions. In utilities, we reflected cost reductions to some extent in our earnings forecasts. In housing, real estate, we reflect the growing likelihood that a large-scale real estate developer will book gains on real estate sales, but our upward revision for the sector as a whole is small.

Downward revisions were biggest for the chemicals; trading companies; automobiles; electrical machinery, precision equipment sectors.

In chemicals, we lowered our oil products subsector forecast as we lowered our oil price assumption, and we take a more downbeat view of earnings from petrochemicals. In trading companies, we make downward revisions mainly to resource business forecasts as we changed our assumptions for commodity prices. In automobiles, we factored in fines and model-mix deterioration accompanying the efforts to comply with CO2 regulations in Europe. In electrical machinery, precision equipment, our downward revision is smaller than that for FY19 because we expect demand for 5G smartphones to rise.

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

FY19E					FY20E				
[Upward revisions] 4 sectors					[Upward revisions] 4 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Pharmaceuticals, healthcare	1,485	1,362	122	9.0	Pharmaceuticals, healthcare	2,135	2,092	43	2.1
Utilities	1,258	1,218	40	3.3	Software	963	937	26	2.8
Software	795	769	26	3.4	Utilities	1,102	1,077	25	2.3
Financials	6,874	6,856	18	0.3	Housing, real estate	2,298	2,297	1	0.0

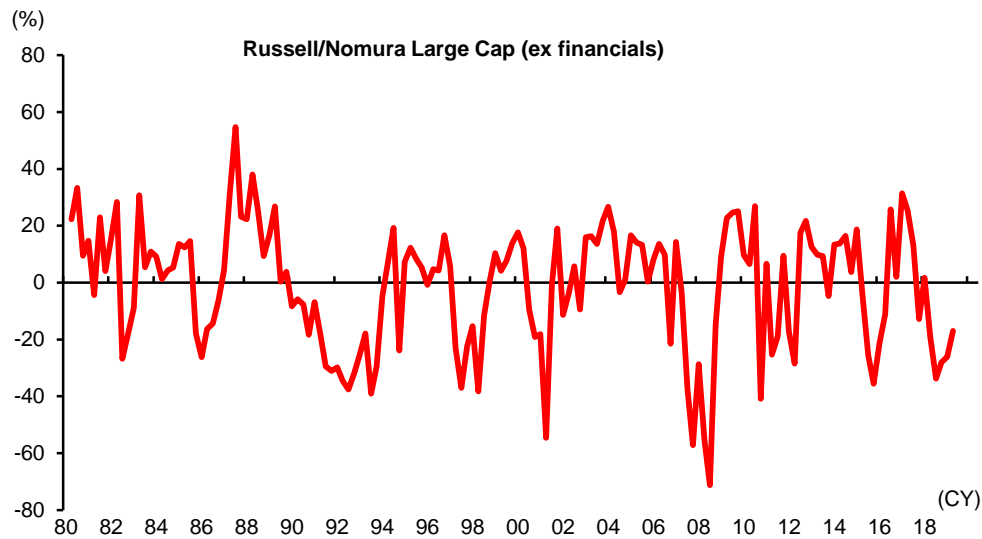
FY19E					FY20E				
[Downward revisions] 14 sectors					[Downward revisions] 14 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Housing, real estate	2,182	2,183	-1	-0.1	Media	308	310	-3	-0.8
Media	279	282	-4	-1.3	Household goods	971	981	-10	-1.1
Household goods	865	872	-7	-0.8	Transportation	2,839	2,852	-13	-0.5
Retailing	1,667	1,681	-14	-0.8	Financials	7,060	7,073	-13	-0.2
Transportation	2,630	2,646	-16	-0.6	Retailing	1,790	1,818	-28	-1.5
Food	1,455	1,494	-40	-2.7	Telecommunications	3,884	3,930	-45	-1.1
Services	1,672	1,777	-104	-5.9	Food	1,607	1,682	-75	-4.4
Steel, nonferrous metals	438	582	-145	-24.8	Steel, nonferrous metals	557	678	-121	-17.8
Machinery	2,305	2,462	-156	-6.3	Machinery	2,573	2,699	-126	-4.7
Chemicals	3,579	3,775	-196	-5.2	Services	1,796	1,935	-139	-7.2
Automobiles	6,295	6,549	-254	-3.9	Electrical machinery, precision equipment	6,212	6,351	-139	-2.2
Trading companies	3,120	3,384	-264	-7.8	Automobiles	6,918	7,189	-270	-3.8
Electrical machinery, precision equipment	5,018	5,303	-285	-5.4	Trading companies	3,033	3,359	-326	-9.7
Telecommunications	4,142	5,146	-1,004	-19.5	Chemicals	3,910	4,253	-343	-8.1

Note: No revisions were made to our FY19 or FY20 forecasts for the construction sector. Latest estimates as of 25 November 2019; previous estimates as of 26 August 2019.

Source: Nomura

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

	(yy/m)	18/3	18/6	18/9	18/9	19/3	19/6	19/9	19/12
Russell/Nomura Large Cap		14.4	-11.4	0.9	-17.4	-31.4	-27.6	-24.6	-15.6
Russell/Nomura Large Cap (ex financials)		13.2	-12.9	1.7	-19.1	-33.8	-28.0	-26.1	-16.9
Manufacturing		13.3	-23.8	7.2	-26.0	-47.8	-34.1	-46.4	-25.7
Basic materials		26.8	-17.1	9.8	-36.6	-42.9	-31.7	-63.4	-56.1
Processing		17.9	-33.3	14.3	-29.8	-57.8	-41.0	-50.6	-32.5
Nonmanufacturing (ex financials)		13.1	3.3	-6.6	-9.0	-14.1	-19.5	2.3	-4.7



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	FY16	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	307	-3.3	8.2	6.5	1.1	0.2	1.9	1.8
	Manufacturing	179	-4.3	9.3	3.0	0.3	-0.7	2.0	2.3
	Basic materials	41	-5.6	17.1	7.0	0.9	0.2	-0.7	0.4
	Processing	83	-4.4	7.9	1.7	-1.0	-2.3	3.0	3.1
	Nonmanufacturing (ex financials)	128	-1.8	6.7	11.5	2.1	1.4	1.7	1.2
Broad sectors	Materials	41	-5.6	17.1	7.0	0.9	0.2	-0.7	0.4
	Machinery, autos	45	-3.1	9.0	2.2	-0.5	-1.9	2.9	2.8
	Electronics	38	-6.3	6.0	0.8	-1.8	-2.9	3.2	3.8
	Consumer, distribution	98	-2.2	6.7	15.5	3.0	2.0	1.9	1.3
	Information	23	0.1	6.3	3.7	1.5	1.4	2.6	2.3
	Utilities, infrastructure	62	-2.5	6.0	3.8	2.2	2.1	1.1	0.8
Sectors	Chemicals	33	-5.8	18.0	8.0	1.7	1.4	-0.5	0.1
	Steel, nonferrous metals	8	-5.1	15.0	4.7	-1.3	-3.0	-1.1	1.2
	Machinery	26	-2.9	13.9	3.0	1.7	0.3	2.9	2.9
	Autos	19	-3.2	7.7	2.0	-1.1	-2.6	2.9	2.7
	Electrical machinery, precision equipment	38	-6.3	6.0	0.8	-1.8	-2.9	3.2	3.8
	Pharmaceuticals, healthcare	22	-2.7	3.2	3.5	9.5	10.1	1.7	1.4
	Food products	20	-1.8	6.7	2.5	1.4	1.2	0.9	0.6
	Household goods	13	-4.1	7.5	3.5	2.1	1.3	5.6	5.5
	Trading companies	7	-4.6	13.1	45.0	2.1	-0.3	0.7	-0.1
	Retailing	20	2.2	5.1	3.1	3.4	3.3	3.8	3.5
	Services	16	-2.7	0.7	1.9	0.9	0.4	2.5	1.0
	Software	11	2.9	20.8	9.5	4.6	5.9	8.3	8.0
	Media	5	-1.3	5.3	6.4	1.2	1.4	2.5	2.7
	Telecommunications	7	0.0	4.7	2.7	1.0	0.8	1.8	1.4
	Construction, engineering	7	0.2	1.9	8.0	4.4	4.4	-1.0	-1.0
	Housing, real estate	19	5.1	5.1	5.4	3.2	3.7	2.7	2.3
	Transportation	25	-3.1	5.8	-1.1	2.1	1.6	2.3	2.3
Utilities	11	-8.2	8.5	6.6	0.6	0.1	-1.0	-1.6	

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

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY16	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap	333	1.4	15.3	1.1	1.2	-3.5	6.4	8.3
	Russell/Nomura Large Cap (ex financials)	307	3.6	17.5	3.1	0.2	-5.3	7.0	9.3
	Manufacturing	179	0.2	21.6	-1.5	-5.1	-9.1	15.7	16.1
	Basic materials	41	12.1	43.6	2.1	-14.9	-21.5	13.2	11.2
	Processing	83	-3.1	19.6	-2.6	-1.2	-6.0	13.5	15.3
	Nonmanufacturing	154	2.5	9.7	3.7	7.1	1.8	-1.4	1.7
	Nonmanufacturing (ex financials)	128	8.4	12.2	9.7	6.9	-0.4	-3.0	1.4
Broad sectors	Materials	41	12.1	43.6	2.1	-14.9	-21.5	13.2	11.2
	Machinery, autos	45	-13.0	16.5	-8.9	1.5	-3.1	9.7	10.4
	Electronics	38	27.8	26.1	9.3	-5.5	-10.6	19.8	23.8
	Consumer, distribution	98	19.8	14.8	2.8	1.8	-1.1	12.3	10.4
	Information	23	0.2	6.1	33.1	7.8	-9.3	-16.5	-1.2
	Utilities, infrastructure	62	-3.8	9.6	-2.5	6.0	6.3	2.4	2.3
	Financials	26	-8.1	4.4	-10.5	7.7	8.0	3.2	2.7
Sectors	Chemicals	33	16.1	34.2	4.5	-10.0	-14.7	12.7	9.2
	Steel, nonferrous metals	8	-5.5	93.4	-7.3	-37.0	-52.6	16.4	27.3
	Machinery	26	-17.9	29.3	9.6	-3.2	-9.3	9.7	11.6
	Autos	19	-11.6	12.9	-14.6	3.4	-0.6	9.8	9.9
	Electrical machinery, precision equipment	38	27.8	26.1	9.3	-5.5	-10.6	19.8	23.8
	Pharmaceuticals, healthcare	22	-5.4	5.9	-3.5	-9.8	-1.7	53.5	43.8
	Food products	20	8.3	4.8	-3.7	-9.1	-11.5	12.5	10.5
	Household goods	13	5.8	20.8	6.9	5.0	4.2	12.6	12.2
	Trading companies	7	233.4	31.2	10.4	7.5	-0.9	-0.8	-2.8
	Retailing	20	-1.4	12.4	3.3	8.6	7.7	8.2	7.4
	Services	16	-9.6	10.9	0.0	4.4	-1.7	8.9	7.4
	Software	11	21.1	44.2	16.7	13.6	17.5	21.7	21.0
	Media	5	-1.0	9.6	4.1	-22.3	-23.4	9.8	10.4
	Telecommunications	7	-1.4	1.4	38.5	9.3	-12.1	-23.6	-6.2
	Construction, engineering	7	30.5	9.8	-1.1	1.0	1.0	-2.1	-2.1
	Housing, real estate	19	22.4	9.9	-2.7	6.2	6.2	5.2	5.3
	Transportation	25	-5.2	9.0	2.2	0.7	0.1	7.8	8.0
	Utilities	11	-36.2	10.2	-12.8	22.8	26.8	-11.6	-12.4
Financials	26	-8.1	4.4	-10.5	7.7	8.0	3.2	2.7	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 25 November 2019; previous estimates as of 26 August 2019.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY16	FY17	FY18	FY19E Old	FY19E New	FY20E Old	FY20E New
Industrial groups	Russell/Nomura Large Cap	333	41,339	47,681	48,162	49,079	46,795	52,233	50,679
	Russell/Nomura Large Cap (ex financials)	307	34,408	40,521	41,796	42,223	39,921	45,160	43,618
	Manufacturing	179	19,641	23,855	23,510	22,399	21,439	25,924	24,883
	Basic materials	41	3,551	4,971	4,963	4,357	4,017	4,931	4,468
	Processing	83	12,524	14,790	14,552	14,313	13,618	16,239	15,703
	Nonmanufacturing	154	21,698	23,826	24,652	26,680	25,355	26,309	25,796
	Nonmanufacturing (ex financials)	128	14,766	16,666	18,286	19,824	18,482	19,235	18,735
Broad sectors	Materials	41	3,551	4,971	4,963	4,357	4,017	4,931	4,468
	Machinery, autos	45	8,528	9,755	8,911	9,010	8,600	9,888	9,492
	Electronics	38	3,996	5,035	5,641	5,303	5,018	6,351	6,212
	Consumer, distribution	98	8,630	10,162	10,312	10,570	10,263	11,866	11,332
	Information	23	3,999	4,317	5,753	6,198	5,216	5,176	5,155
	Utilities, infrastructure	62	5,704	6,280	6,216	6,784	6,807	6,948	6,961
	Financials	26	6,931	7,160	6,366	6,856	6,874	7,073	7,060
Sectors	Chemicals	33	3,002	3,911	4,036	3,775	3,579	4,253	3,910
	Steel, nonferrous metals	8	549	1,061	927	582	438	678	557
	Machinery	26	1,813	2,336	2,539	2,462	2,305	2,699	2,573
	Autos	19	6,716	7,419	6,372	6,549	6,295	7,189	6,918
	Electrical machinery, precision equipment	38	3,996	5,035	5,641	5,303	5,018	6,351	6,212
	Pharmaceuticals, healthcare	22	1,465	1,616	1,540	1,362	1,485	2,092	2,135
	Food products	20	1,487	1,723	1,625	1,494	1,455	1,682	1,607
	Household goods	13	613	755	830	872	865	981	971
	Trading companies	7	2,192	2,852	3,148	3,384	3,120	3,359	3,033
	Retailing	20	1,435	1,545	1,497	1,681	1,667	1,818	1,790
	Services	16	1,437	1,671	1,672	1,777	1,672	1,935	1,796
	Software	11	341	564	620	769	795	937	963
	Media	5	318	349	364	282	279	310	308
	Telecommunications	7	3,339	3,404	4,769	5,146	4,142	3,930	3,884
	Construction, engineering	7	617	664	696	738	738	722	722
	Housing, real estate	19	1,845	2,054	2,055	2,183	2,182	2,297	2,298
	Transportation	25	2,204	2,450	2,474	2,646	2,630	2,852	2,839
Utilities	11	1,038	1,112	992	1,218	1,258	1,077	1,102	
Financials	26	6,931	7,160	6,366	6,856	6,874	7,073	7,060	

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

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY18 Q3–FY19 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	-	-	-	-	-	-	-	-	-17.0	1.1	-4.3	-18.4	-27.4	-21.0	-10.6	-18.2
	Russell/Nomura Large Cap (ex financials)	5.8	4.6	1.2	0.6	-5.7	2.4	-10.7	-16.9	-16.6	2.6	-5.0	-20.8	-27.6	-12.9	-14.1	-22.0
	Manufacturing	2.1	-0.4	-0.1	-0.2	-9.5	-10.5	-19.0	-10.4	-25.1	-5.4	-26.2	-15.4	-38.9	-23.4	-41.8	-16.1
	Basic materials	7.3	0.1	2.4	-1.1	-22.9	-9.9	-27.9	-30.7	-23.8	-8.9	-33.0	-35.0	-33.4	-11.9	-43.5	-41.4
	Processing	0.6	-1.4	-2.3	-1.4	-6.2	-10.2	-19.3	-6.2	-29.5	-1.5	-27.6	-12.2	-44.1	-27.1	-46.9	-13.5
	Nonmanufacturing	-	-	-	-	-	-	-	-	-9.0	8.6	18.1	-21.2	-15.0	-17.6	30.3	-20.3
	Nonmanufacturing (ex financials)	11.4	11.8	3.0	1.7	-0.3	22.0	-0.1	-24.6	-4.7	16.1	25.4	-27.3	-10.8	9.7	38.1	-29.9
Broad sectors	Basic materials	7.3	0.1	2.4	-1.1	-22.9	-9.9	-27.9	-30.7	-23.8	-8.9	-33.0	-35.0	-33.4	-11.9	-43.5	-41.4
	Machinery, autos	2.5	-1.1	-1.3	-0.8	-8.8	-22.2	-17.0	-7.5	-31.0	-13.8	-20.7	-12.2	-53.0	-20.4	-20.5	-11.8
	Electronics	-2.4	-1.9	-4.1	-2.2	-2.2	14.3	-23.5	-4.5	-26.7	24.8	-39.9	-12.3	-22.7	-34.6	-72.0	-16.1
	Consumption, distribution	14.9	16.1	2.3	1.7	-7.0	2.2	-2.6	2.6	-7.5	1.0	-4.7	-2.3	-14.5	1.0	-5.4	6.0
	Information	3.3	4.2	3.5	2.5	18.8	52.2	-8.5	-79.6	0.8	39.2	56.8	-79.9	-13.2	-14.1	72.7	SL
	Utilities, infrastructure	3.3	4.7	5.4	3.8	-6.5	14.3	10.2	6.4	-8.4	11.8	18.3	8.6	-9.7	21.5	46.5	21.4
	Financials	-	-	-	-	-	-	-	-	-19.7	-7.8	-0.4	-0.8	-26.4	-71.0	12.7	9.3
Sectors	Chemicals	8.0	0.4	3.7	-1.3	-24.0	-8.7	-23.6	-25.9	-26.8	-7.1	-30.1	-30.9	-38.5	-25.7	-35.1	-35.5
	Steel, nonferrous metals	5.8	-0.5	-0.8	-0.7	-18.2	-13.4	-44.4	-55.6	-12.9	-20.7	-44.7	-57.3	-16.3	SP	-68.2	-66.0
	Machinery	2.4	-0.9	-3.5	-1.6	-4.5	18.3	-22.2	-18.2	-7.9	29.6	-25.6	-20.2	-0.9	30.1	-24.0	-22.0
	Automobiles	2.5	-1.1	-0.7	-0.6	-10.2	-35.2	-15.3	-2.7	-38.6	-25.9	-19.0	-9.2	-62.7	-33.8	-19.4	-8.4
	Electrical machinery, precision equipment	-2.4	-1.9	-4.1	-2.2	-2.2	14.3	-23.5	-4.5	-26.7	24.8	-39.9	-12.3	-22.7	-34.6	-72.0	-16.1
	Pharmaceuticals, healthcare	1.3	10.2	12.4	15.2	2.7	10.6	8.1	21.4	-4.6	-3.7	-3.1	12.2	-15.2	43.6	-7.2	22.3
	Food products	0.2	-1.5	0.1	0.1	-15.3	-22.5	-20.4	-16.8	-19.2	-27.9	-21.5	-16.1	-19.3	-46.8	-24.0	-17.0
	Household goods	2.9	-0.2	0.8	2.2	2.4	-20.2	-3.9	10.9	-3.6	-16.3	-7.9	7.6	-45.2	-12.2	-11.3	12.4
	Trading companies	42.7	43.6	0.6	-3.0	-8.7	20.2	-3.7	-10.3	-3.4	19.7	-1.5	-16.1	-8.5	23.9	-4.8	-11.9
	Retailing	6.0	5.9	4.0	5.2	-2.8	0.6	4.5	23.9	-2.6	4.3	-0.8	16.5	-5.6	28.0	8.0	17.1
	Services	2.1	1.6	-1.6	-0.3	-14.4	8.8	2.1	6.3	-12.6	10.2	3.1	5.7	-11.2	-25.8	10.9	45.2
	Software	17.5	12.2	8.5	9.9	23.6	43.0	16.1	39.9	12.4	96.0	-3.2	21.8	20.1	85.5	-1.6	38.9
	Media	6.1	8.9	2.3	5.5	-13.4	-6.6	-29.4	19.6	-19.6	-22.2	-17.6	-44.4	-31.2	-28.1	32.8	-43.9
	Telecommunications	0.9	2.7	3.0	1.1	21.9	59.1	-9.4	-93.0	1.1	40.9	65.6	-91.2	-15.3	-27.6	83.0	SL
	Construction, engineering	9.4	10.9	10.6	12.2	-5.8	11.4	12.2	16.9	-6.4	10.8	10.5	12.0	-3.4	24.1	18.7	11.7
	Housing, real estate	1.0	7.2	4.3	6.4	-7.7	-8.9	7.0	8.8	-7.5	-13.7	8.4	6.6	-11.7	-14.5	5.2	7.5
	Transportation	-0.3	-2.3	1.2	2.5	7.9	7.9	2.2	1.8	5.9	13.6	4.5	4.5	1.4	107.5	7.3	7.6
	Utilities	7.8	7.4	9.6	0.0	-52.8	127.3	37.3	8.5	-60.4	156.2	76.2	19.0	-62.0	88.6	246.2	85.7
	Financials	-	-	-	-	-	-	-	-	-19.7	-7.8	-0.4	-0.8	-26.4	-71.0	12.7	9.3

Note: (1) Q1 = Feb-Apr, Mar-May, or Apr-Jun; Q2 = May-Jul, Jun-Aug, or Jul-Sep; Q3 = Aug-Oct, Sep-Nov, or Oct-Dec; Q4 = Nov-Jan, Dec-Feb, or Jan-Mar. (2) Figures are for companies that had announced results (either full year, Q1, Q2, or Q3) by 25 November 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			
		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18	FY19E	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	15.9	14.6	13.5	-	-	-	1.34	1.32	2.34	2.46	2.64	9.2	8.4	8.8	9.0
	Russell/Nomura Large Cap (ex loss-making cos)	15.4	14.3	13.2	-	-	-	1.33	1.32	2.33	2.51	2.70	9.5	8.7	8.8	9.0
	Russell/Nomura Large Cap (ex financials)	17.2	15.5	14.2	8.8	8.3	7.8	1.52	1.46	2.22	2.34	2.51	10.3	8.7	9.1	9.5
	Manufacturing	19.1	16.1	14.5	10.0	9.1	8.4	1.61	1.56	2.16	2.29	2.45	10.5	8.3	9.4	9.8
	Basic materials	15.0	12.9	11.5	6.0	5.5	5.1	0.94	0.91	2.66	2.71	2.92	9.0	6.2	6.9	7.4
	Processing	16.9	14.4	13.0	9.5	8.5	7.9	1.54	1.48	2.15	2.33	2.52	11.2	9.0	9.9	10.3
	Nonmanufacturing	13.2	13.1	12.4	-	-	-	1.10	1.11	2.57	2.67	2.87	8.2	8.5	8.2	8.3
	Nonmanufacturing (ex financials)	15.0	14.7	13.7	7.4	7.3	7.0	1.39	1.33	2.31	2.42	2.61	9.9	9.2	8.8	9.0
Broad sectors	Basic materials	15.0	12.9	11.5	6.0	5.5	5.1	0.94	0.91	2.66	2.71	2.92	9.0	6.2	6.9	7.4
	Machinery, autos	14.0	12.6	11.5	8.2	7.6	7.1	1.27	1.21	2.61	2.79	3.02	9.4	8.9	9.4	9.7
	Electronics	22.0	17.3	15.3	11.6	10.0	9.2	2.02	1.97	1.63	1.79	1.95	14.5	9.1	10.9	11.4
	Consumption, distribution	22.0	19.8	18.2	12.2	11.6	11.0	1.87	1.84	2.04	2.10	2.26	9.1	8.5	9.1	9.4
	Information	17.1	16.0	13.8	6.9	6.7	6.3	1.64	1.64	2.95	3.20	3.44	13.9	9.6	10.0	11.0
	Utilities, infrastructure	12.3	12.5	12.1	6.3	6.3	6.1	1.22	1.11	2.01	2.07	2.12	8.9	9.5	8.6	8.4
	Financials	8.9	9.0	8.9	-	-	-	0.60	0.66	3.65	3.72	3.96	5.3	7.2	7.1	6.9
Sectors	Chemicals	13.9	12.3	11.5	6.5	6.0	5.7	1.10	1.04	2.81	2.86	2.95	10.0	7.7	8.2	8.3
	Steel, nonferrous metals	24.3	16.7	11.5	4.3	3.9	3.4	0.58	0.59	1.91	2.01	2.75	6.7	2.4	3.5	4.9
	Machinery	19.9	17.7	16.2	11.7	10.8	10.1	1.75	1.66	1.87	1.99	2.08	10.1	8.6	9.1	9.3
	Automobiles	12.0	10.8	9.9	7.1	6.5	6.0	1.10	1.05	3.03	3.25	3.55	9.2	9.0	9.5	9.9
	Electrical machinery, precision equipment	22.0	17.3	15.3	11.6	10.0	9.2	2.02	1.97	1.63	1.79	1.95	14.5	9.1	10.9	11.4
	Pharmaceuticals, healthcare	38.6	27.2	23.1	18.0	16.5	15.1	2.53	2.57	1.83	1.85	1.87	8.4	6.6	9.3	10.4
	Food products	22.5	19.4	18.3	12.2	11.2	10.7	2.06	2.00	2.76	2.88	3.04	10.9	9.0	10.1	10.3
	Household goods	29.3	25.8	23.7	20.1	18.0	16.7	4.23	4.01	1.39	1.44	1.55	13.3	14.1	14.9	15.0
	Trading companies	7.7	7.9	7.5	4.5	4.5	4.4	0.88	0.87	4.19	4.18	4.36	12.0	11.4	10.6	10.4
	Retailing	27.4	25.4	23.0	14.3	13.4	12.4	2.50	2.44	1.28	1.38	1.91	8.8	9.2	9.3	9.6
	Services	25.9	24.5	23.4	15.3	14.6	14.2	1.38	1.36	1.57	1.63	1.69	5.1	5.3	5.4	5.5
	Software	25.4	21.6	18.8	21.1	18.4	16.3	4.02	3.77	1.84	2.23	2.59	13.2	15.1	16.7	17.5
	Media	19.1	17.1	16.2	12.5	11.6	11.3	1.11	1.07	1.84	1.84	1.84	7.3	5.7	6.1	6.2
	Telecommunications	14.7	14.1	12.1	5.1	5.0	4.7	1.36	1.36	3.61	3.81	4.03	15.0	9.3	9.4	10.5
	Construction	8.9	9.2	9.3	7.7	8.0	8.0	1.15	1.08	2.97	3.01	3.04	14.0	12.5	11.2	10.4
	Housing, real estate	13.5	12.8	12.3	9.4	9.0	8.7	1.41	1.17	2.39	2.46	2.53	10.0	9.4	8.9	8.7
	Transportation	15.6	14.3	13.9	7.4	7.0	6.9	1.47	1.39	1.36	1.43	1.49	8.8	9.2	9.4	9.0
	Utilities	7.1	9.5	9.0	2.5	2.8	2.7	0.66	0.62	2.78	2.80	2.80	6.2	9.0	6.3	6.4
	Financials	8.9	9.0	8.9	-	-	-	0.60	0.66	3.65	3.72	3.96	5.3	7.2	7.1	6.9
	Russell/Nomura Small Cap		17.5	15.5	15.2	-	-	-	1.18	1.11	2.31	2.32	2.34	6.6	6.4	7.0
Russell/Nomura Small Cap (ex financials)		18.6	16.3	15.7	9.6	8.9	8.7	1.34	1.28	1.88	1.90	1.93	7.0	7.0	7.6	7.5

Note: Share prices and forecasts are as of 25 November 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.

Complete details of rules for the Russell/Nomura Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

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As at 30 June 2019.

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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.

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