

Outlook for FY20-21 corporate earnings

Quarterly Update

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Summary and major assumptions

Overview of the FY20 corporate earnings outlook

For FY20, our analysts look for a sales decline of 8.5% y-y and a recurring profit decline of 3.6% for companies in the Russell/Nomura Large Cap Index (ex financials). While our analysts' forecasts call for recurring profits to fall for a second year in a row, following the 22.3% y-y drop recorded in FY19, their aggregate sales growth forecast has improved by 1.1ppt and aggregate recurring profit growth forecast has improved by 14.7ppt compared with the previous set of forecasts (as of December 2020). The upward revisions were supported by, in addition to an increase in profits at the investment fund business of SoftBank Group [9984], faster-than-expected demand recoveries, particularly in the manufacturing industry, as the economy normalizes from the effects of the pandemic, and by ongoing corporate cost cutting efforts as well.

For Russell/Nomura Large Cap (ex financials) companies, sales were down 2.3% y-y and recurring profits were up 34.8% in FY20 Q3. While there were special factors at play, such as valuation gains on held securities or gains on the sale of securities, and rebounds from one-time losses a year earlier, recurring profits were up even when excluding these factors.

Since last time, we have revised our assumptions in the direction of a stronger yen versus the US dollar but a weaker yen versus the euro and our forex assumptions for FY20 are now USD/JPY of 105.26 (previously 105.90) and EUR/JPY of 123.01 (previously 122.13).

The Revision Index (RI) for the Russell/Nomura Large Cap Index (ex financials), showing the difference between the percentage of companies for which estimates were raised and the percentage of companies for which estimates were lowered, is +31.0% for March 2021 (indicating that upward revisions outstripped downward revisions in the period from 2 December 2020 through 1 March 2021), up from +7.2% in December 2020 (1 September through 1 December 2020). The revision index has been positive for two quarters in a row.

Our analysts expect aggregate dividends for the constituents of the Russell/Nomura Large Cap Index to fall y-y in FY20, in reflection of the harsh business conditions under the pandemic. However, the percentage of companies forecast to raise their dividends is up 6.3ppt from last time (1 December 2020).

Overview of the corporate earnings outlook for FY21

For FY21, our analysts forecast aggregate sales growth of 8.5% y-y and recurring profit growth of 28.2% for companies in the Russell/Nomura Large Cap Index (ex financials). Our analysts forecast recurring profits will grow for the first time in three years, assuming that economic activity will normalize, both in Japan and overseas, after weakening because of COVID-19. While our analysts' aggregate recurring profit growth rate forecast has contracted since last time, this is because the aggregate FY20 recurring profit forecast (the comparison base) has been revised upward, but the aggregate recurring profit forecast for FY21 has, in fact, been revised upward as well.

For FY21, we now assume USD/JPY of 103.00 (previously 105.00, revised in the direction of a stronger yen) and EUR/JPY of 125.00 (previously 123.00, revised in the direction of a weaker yen).

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

		No. of cos	New					Old		(%)
			FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sales	Russell/Nomura Large Cap (ex financials)	304	8.2	6.5	-2.5	-8.5	8.5	-9.6	7.6	
	Manufacturing	175	9.3	3.0	-2.7	-8.7	9.5	-9.8	7.9	
	Basic materials	37	17.1	7.0	-2.0	-12.0	15.4	-14.2	7.3	
	Processing	84	7.9	1.7	-4.5	-8.7	9.2	-9.8	9.1	
	Nonmanufacturing (ex financials)	129	6.7	11.5	-2.3	-8.3	7.3	-9.3	7.1	
	Russell/Nomura Small Cap (ex financials)	1,127	6.1	4.6	0.3	-7.1	6.5	-7.7	6.5	
Operating profits	Russell/Nomura Large Cap (ex financials)	304	16.3	3.6	-23.7	-21.1	43.2	-29.6	49.0	
	Manufacturing	175	17.8	0.3	-23.2	-5.4	33.0	-19.4	41.1	
	Basic materials	37	34.9	0.1	-48.7	10.3	49.9	-15.3	53.0	
	Processing	84	15.9	0.2	-20.1	-11.5	35.0	-27.4	49.4	
	Nonmanufacturing (ex financials)	129	14.3	8.0	-24.3	-38.7	60.5	-41.1	61.1	
	Russell/Nomura Small Cap (ex financials)	1,127	6.8	-2.4	-6.0	-23.2	35.8	-28.0	42.9	
Recurring profits	Russell/Nomura Large Cap	328	15.3	1.1	-20.5	-4.4	25.9	-17.6	36.5	
	Russell/Nomura Large Cap (ex financials)	304	17.5	3.1	-22.3	-3.6	28.2	-18.3	40.4	
	Manufacturing	175	21.6	-1.5	-27.2	2.4	33.7	-13.4	42.2	
	Basic materials	37	43.6	2.1	-52.0	9.3	56.5	-19.1	63.8	
	Processing	84	19.6	-2.6	-24.5	0.8	33.5	-17.4	47.3	
	Nonmanufacturing	153	9.7	3.7	-14.3	-9.9	18.9	-20.9	31.3	
	Nonmanufacturing (ex financials)	129	12.2	9.7	-16.0	-10.3	21.4	-23.6	38.2	
	Russell/Nomura Small Cap	1,223	9.0	-1.8	-7.3	-19.5	31.9	-24.6	37.9	
	Russell/Nomura Small Cap (ex financials)	1,127	8.4	0.3	-9.5	-21.0	35.3	-26.8	43.2	
Net profits	Russell/Nomura Large Cap	328	32.2	-4.5	-31.6	1.8	30.7	-13.1	43.3	
	Russell/Nomura Large Cap (ex financials)	304	38.5	-1.1	-35.6	2.7	34.6	-13.9	49.3	
	Manufacturing	175	53.1	-4.3	-40.3	5.2	41.2	-14.3	56.8	
	Basic materials	37	49.6	0.9	-82.6	64.8	127.7	6.3	206.4	
	Processing	84	68.5	-5.9	-37.9	3.8	35.8	-18.6	53.9	
	Nonmanufacturing	153	15.1	-4.7	-22.2	-1.1	21.0	-12.1	31.7	
	Nonmanufacturing (ex financials)	129	20.4	3.9	-28.8	-0.4	26.2	-13.5	40.1	
	Russell/Nomura Small Cap	1,223	14.5	-5.9	-12.0	-14.5	53.1	-20.1	61.2	
	Russell/Nomura Small Cap (ex financials)	1,127	10.1	-3.4	-13.9	-16.2	63.0	-22.5	74.5	

Note: Latest estimates as of 1 March 2021, previous estimates as of 1 December 2020.

Source: Nomura

Fig. 2: Major assumptions

As of 20 Jan 2021							As of 16 Oct 2020						
		Industrial production 2015se year	Policy rate	WTI	Exchange rate (avg)				Industrial production 2015 base year	Policy rate	WTI	Exchange rate (avg)	
		(% y-y)	(FY-end, %)	(\$/bbl)	(USD/JPY)	(EUR/JPY)			(% y-y)	(FY-end, %)	(\$/bbl)	(USD/JPY)	(EUR/JPY)
FY	FY19E	-3.6	-0.10	54.8	108.72	120.82			-3.6	-0.10	54.8	108.72	120.82
	FY20E	-10.6	-0.10	41.1	105.26	123.01			-11.9	-0.10	37.9	105.90	122.13
	FY21E	9.9	-0.10	51.5	103.00	125.00			11.8	-0.10	42.9	105.00	123.00
Half-yearly	FY19 H1	-1.7	-0.10	58.1	108.61	121.41			-1.7	-0.10	58.1	108.61	121.41
	FY19E H2	-5.6	-0.10	51.6	108.84	120.22			-5.6	-0.10	51.6	108.84	120.22
	FY20E H1	-16.5	-0.10	34.4	106.80	121.26			-17.3	-0.10	34.4	106.80	121.26
	FY20E H2	-4.5	-0.10	47.8	103.73	124.76			-6.4	-0.10	41.5	105.00	123.00
	FY21E H1	12.6	-0.10	52.5	103.00	125.00			14.5	-0.10	42.8	105.00	123.00
	FY21E H2	7.4	-0.10	50.5	103.00	125.00			9.4	-0.10	43.0	105.00	123.00

Note: WTI is 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

FY20 overview

For FY20, our analysts project that recurring profits will increase, or swing to the black, in 5 out of 19 sectors, and that recurring profits will decrease, or move to recurring losses, in the remaining 14 sectors.

The sectors expected to make major positive contributions to profits are telecommunications, electrical machinery & precision equipment, steel & nonferrous metals, software, and pharmaceuticals & healthcare. In the telecommunications sector, profits have been growing at SoftBank Group's investment fund business. The forecast for the electrical machinery & precision equipment sector reflects the disappearance of impairment losses booked in FY19 and also reflects increased stay-at-home demand, including for video games, amid the pandemic, as well as increased demand for electronic components and semiconductors in a wide range of fields, including automotive applications and smartphones, which are moving to 5G. The forecasts for steel & nonferrous metals and pharmaceuticals & healthcare largely reflect the disappearance of one-time losses or impairment losses booked in FY19, as per the situation with the electrical machinery & precision equipment sector. Profit growth in the software sector is being driven by an increase in stay-at-home demand and amusement software, which has benefited from digital distribution efforts.

Sectors that our analysts expect to make major negative contributions to profits include transportation, automobiles, services, financials, trading companies, and housing & real estate. In the transportation sector, the number of people traveling by plane and train has fallen sharply in the pandemic. The automobiles sector has benefited from faster-than-expected demand recoveries in the US and China and cost-cutting efforts, but our analysts expect automobile demand to fall y-y in Japan and abroad. In the services segment, the pandemic has had a broad impact, including on Japan Post Holdings [6178], with its post office financial services operations affected by a drop in customer traffic, and on Oriental Land [4661], with fewer people visiting its theme parks. The pandemic has also triggered a decline in demand for job placement and lower demand for eating out. In the financials sector, our analysts expect the pandemic to squeeze banks' earnings via a reduction in economic and corporate activity and higher credit costs, for example. For trading companies, the main negatives for profits include a downturn in automotive- and passenger-related operations and weak demand for some resources as a result of COVID-19, as well as the recording of impairment losses. In the housing & real estate sector, office leasing operations are performing solidly, but our analysts expect the sector to be hit by a drop in customer traffic for lodging and retail facilities due to the pandemic.

Overview of the corporate earnings outlook for FY21

For FY21, our analysts assume that economic activity will continue to return to normal as COVID-19 vaccines are distributed. They expect recurring profits to rise or return to the black in 17 out of 19 sectors and to fall in only the telecommunications and utilities sectors.

Sectors expected to make large contributions to overall profit growth include transportation, automobiles, trading companies, and chemicals. Our analysts expect substantial contributions to profit growth from a recovery in demand across the board and the disappearance of one-time losses booked in FY20. In the telecommunications sector, which is expected to make a large negative contribution to overall profits, the major factor is a reactive fallback from the anticipated booking of profits in FY20 by the investment fund business of SoftBank Group.

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

FY20E			
Increase in profits		(%)	
	Growth	Contribution	Contribution (ex financials)
5 sectors			
Telecommunications	151.5	247.7	350.6
Electrical machinery, precision equipment	25.7	64.1	90.8
Steel, nonferrous metals	SP	31.9	45.1
Software	35.4	17.8	25.2
Pharmaceuticals, healthcare	17.0	16.4	23.3
Decrease in profits			
		(%)	
	Growth	Contribution	Contribution (ex financials)
14 sectors			
Food	-1.8	-1.5	-2.1
Construction	-11.3	-5.0	-7.0
Household goods	-19.3	-9.0	-12.7
Media	SL	-12.3	-17.4
Utilities	-22.2	-15.1	-21.4
Machinery	-16.0	-16.8	-23.8
Retailing	-19.1	-18.2	-25.7
Chemicals	-11.5	-18.7	-26.5
Housing, real estate	-17.6	-22.2	-31.3
Trading companies	-17.7	-24.1	-34.1
Financials	-8.7	-29.3	-
Services	-32.0	-33.7	-47.6
Automobiles	-14.0	-41.8	-59.2
Transportation	SL	-230.3	-325.9

Note: SP = switch to profits. SL = switch to losses. LS = losses shrinking.

Source: Nomura

FY21E			
Increase in profits		(%)	
	Growth	Contribution	Contribution (ex financials)
17 sectors			
Transportation	SP	29.8	31.8
Automobiles	50.5	22.8	24.4
Trading companies	54.0	10.7	11.4
Chemicals	37.5	9.3	10.0
Machinery	52.7	8.2	8.7
Electrical machinery, precision equipment	14.3	8.0	8.5
Financials	12.0	6.4	-
Steel, nonferrous metals	328.5	5.7	6.1
Pharmaceuticals, healthcare	25.3	5.1	5.5
Services	38.9	5.0	5.3
Retailing	27.5	3.9	4.2
Housing, real estate	16.1	3.2	3.4
Media	SP	2.8	3.0
Software	19.2	2.4	2.5
Household goods	26.1	1.7	1.8
Food	8.5	1.2	1.3
Construction	5.1	0.4	0.4
Decrease in profits			
		(%)	
	Growth	Contribution	Contribution (ex financials)
2 sectors			
Utilities	-5.5	-0.5	-0.5
Telecommunications	-36.1	-25.9	-27.7

Revisions to recurring profit estimates (versus old estimates)

Overview of the FY20 corporate earnings outlook

Our analysts have raised their FY20 recurring profit forecasts for 16 out of 19 sectors and lowered them for 3. Their earnings forecasts reflect economic activity normalizing from the effects of the pandemic, particularly in the manufacturing industry.

The largest upward revisions were in sectors such as telecommunications, automobiles; machinery & precision equipment, chemicals, and trading companies. The upward revision for telecommunications factors in the prospect of increased profits at the investment fund business of SoftBank Group. The upward revision for automobiles reflects better-than-expected performance in terms of changes in the product mix, cost savings, lower sales incentives in North America as a result of lower inventories, and major improvements in sales financing as a result of rising used-car prices and lower loan default provisions. For electrical machinery & precision equipment, the upward revision reflects stay-at-home demand, including for video games, and demand for electronic components and semiconductor production equipment. For chemicals, the upward revision largely reflects improved refining margins at oil companies and better margins and a recovery in demand for petrochemicals. For trading companies our analysts factor in a better-than-expected recovery in automotive-related businesses and chemical operations, and a rise in international commodity prices.

The largest downward revision was in the media sector, as it reflects the booking of impairment losses at Dentsu Group [4324].

Overview of the corporate earnings outlook for FY21

Our analysts have raised their FY21 recurring profit forecasts for 13 of 19 sectors, lowered them for 5, and did not revise them for one (media).

The largest upward revisions to our forecasts were in the chemicals, automobiles, electrical machinery & precision equipment, trading companies, and machinery segments. For the chemicals sector, the upward revision largely reflects the upward revision to our assumption for the price of crude oil, but also factors in a recovery in demand for various chemical products. For automobiles, our forecast factors in a rise in consolidated shipment volumes, including for building up inventories as production cutbacks in Jan-Mar 2021 are likely to result in very low inventories at end-March, as well as lower incentives as a result of ongoing supply shortages. For the electrical machinery & precision equipment sector, we revised up our outlook for semiconductor production equipment and electronic component demand and IT investment demand from digital transformation efforts. The upward revision to our FY21 forecast for the trading companies sector is for the same reasons as in FY20. For the machinery sector, our analysts have factored in a stronger-than-expected recovery in demand for factory automation and construction machinery, particularly in the US and China.

The largest downward revision was to our forecast for the utilities sector. This is to reflect our higher assumption for the price of crude oil and the impact from increased competition.

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

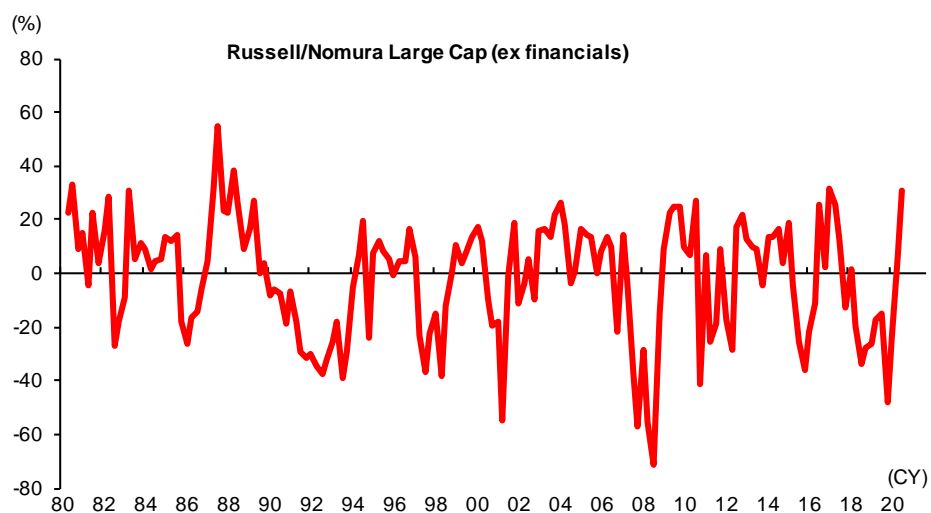
FY20E					FY21E				
[Upward revisions] 16 sectors					[Upward revisions] 13 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Telecommunications	6,883	5,305	1,578.2	29.7	Chemicals	3,266	2,567	699.5	27.3
Automobiles	4,283	3,122	1,161.0	37.2	Automobiles	6,506	5,926	579.4	9.8
Electrical machinery, precision equipment	5,244	4,486	758.0	16.9	Electrical machinery, precision equipment	6,089	5,615	473.6	8.4
Chemicals	2,414	1,951	463.3	23.8	Trading companies	2,913	2,467	446.3	18.1
Trading companies	1,868	1,569	299.0	19.1	Machinery	2,262	1,967	295.2	15.0
Financials	5,173	4,891	282.3	5.8	Steel, nonferrous metals	712	500	212.4	42.5
Steel, nonferrous metals	184	-27	211.0	-	Financials	5,766	5,566	199.7	3.6
Retailing	1,286	1,148	138.0	12.0	Retailing	1,734	1,652	82.1	5.0
Housing, real estate	1,735	1,608	127.5	7.9	Software	1,408	1,335	73.1	5.5
Machinery	1,479	1,387	92.2	6.6	Housing, real estate	2,184	2,120	64.5	3.0
Transportation	-1,709	-1,800	91.4	-	Household goods	791	741	50.2	6.8
Software	1,137	1,091	45.9	4.2	Pharmaceuticals, healthcare	2,438	2,405	32.5	1.4
Household goods	629	602	27.5	4.6	Services	1,701	1,676	24.5	1.5
Services	1,197	1,175	21.3	1.8					
Pharmaceuticals, healthcare	1,894	1,889	5.2	0.3					
Food	1,344	1,340	3.6	0.3					
[Downward revisions] 3 sectors					[Downward revisions] 5 sectors				
	New ¥bn	Old ¥bn	Revision ¥bn	Change %		New ¥bn	Old ¥bn	Revision ¥bn	Change %
Construction	652	661	-9.0	-1.4	Transportation	1,106	1,106	-0.4	-0.0
Utilities	886	913	-27.3	-3.0	Construction	699	715	-15.8	-2.2
Media	-52	112	-164.0	-146.1	Telecommunications	4,382	4,402	-20.0	-0.5
					Food	1,479	1,532	-52.9	-3.5
					Utilities	838	932	-94.5	-10.1

Note: Latest estimates as of 1 March 2021, previous estimates as of 1 December 2020. We did not make any changes to our FY21 forecasts for the media sector.

Source: Nomura

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

	(yy/m)	19/6	19/6	19/12	20/3	20/6	20/9	20/12	21/3
Russell/Nomura Large Cap		-27.6	-24.6	-15.6	-15.5	-45.5	-25.5	7.6	29.3
Russell/Nomura Large Cap (ex financials)		-28.0	-26.1	-16.9	-15.0	-48.0	-23.9	7.2	31.0
Manufacturing		-34.1	-46.4	-25.7	-21.7	-57.7	-17.7	7.4	38.7
Basic materials		-31.7	-63.4	-56.1	-40.5	-64.9	-29.7	18.9	52.8
Processing		-41.0	-50.6	-32.5	-23.8	-63.1	-14.3	20.2	64.6
Nonmanufacturing (ex financials)		-19.5	2.3	-4.7	-6.1	-35.1	-32.1	6.9	21.2



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	FY17	FY18	FY19	FY20E Old	FY20E New	FY21E Old	FY21E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	304	8.2	6.5	-2.5	-9.6	-8.5	7.6	8.5
	Manufacturing	175	9.3	3.0	-2.7	-9.8	-8.7	7.9	9.5
	Basic materials	37	17.1	7.0	-2.0	-14.2	-12.0	7.3	15.4
	Processing	84	7.9	1.7	-4.5	-9.8	-8.7	9.1	9.2
	Nonmanufacturing (ex financials)	129	6.7	11.5	-2.3	-9.3	-8.3	7.1	7.3
Broad sectors	Materials	37	17.1	7.0	-2.0	-14.2	-12.0	7.3	15.4
	Machinery, autos	45	9.0	2.2	-4.4	-12.0	-11.3	10.7	10.6
	Electronics	39	6.0	0.8	-4.8	-6.0	-4.3	6.9	7.2
	Consumer, distribution	98	6.7	15.5	-0.6	-7.6	-6.3	6.3	6.2
	Information	26	6.3	3.7	-7.4	-2.3	-1.4	4.8	4.4
	Utilities, infrastructure	59	6.0	3.8	0.2	-12.6	-12.4	7.9	8.4
Sectors	Chemicals	31	18.0	8.0	-1.2	-15.1	-12.3	6.2	14.8
	Steel, nonferrous metals	6	15.0	4.7	-3.9	-11.8	-11.2	10.3	17.2
	Machinery	26	13.9	3.0	-3.6	-8.1	-7.2	7.3	8.7
	Autos	19	7.7	2.0	-4.6	-13.1	-12.5	11.6	11.1
	Electrical machinery, precision equipment	39	6.0	0.8	-4.8	-6.0	-4.3	6.9	7.2
	Pharmaceuticals, healthcare	21	3.2	3.5	9.7	-1.6	-1.9	4.0	3.5
	Food products	19	6.7	2.5	0.7	-4.2	-4.1	3.4	2.0
	Household goods	14	7.5	3.5	-0.8	-8.2	-7.7	6.0	6.0
	Trading companies	7	13.1	45.0	-5.0	-13.0	-10.6	5.6	5.6
	Retailing	19	5.1	3.1	2.5	-5.0	-3.0	14.1	14.6
	Services	18	0.7	1.9	-2.5	-5.6	-5.7	2.9	2.7
	Software	12	20.8	9.5	7.5	6.1	8.2	4.5	3.9
	Media	5	5.3	6.4	0.8	-13.3	-13.0	15.6	15.1
	Telecommunications	9	4.7	2.7	-10.7	-2.2	-1.5	3.9	3.5
	Construction, engineering	7	1.9	8.0	5.1	-4.5	-6.2	2.8	3.9
	Housing, real estate	18	5.1	5.4	2.3	-6.3	-5.6	5.5	6.3
	Transportation	24	5.8	-1.1	-2.2	-26.0	-26.1	22.7	22.1
	Utilities	10	8.5	6.6	-0.9	-6.9	-6.4	-0.4	0.4

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 March 2021; previous estimates as of 1 December 2020.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)

		No. of cos	FY17	FY18	FY19	FY20E Old	FY20E New	FY21E Old	FY21E New
Industrial groups	Russell/Nomura Large Cap	328	15.3	1.1	-20.5	-17.6	-4.4	36.5	25.9
	Russell/Nomura Large Cap (ex financials)	304	17.5	3.1	-22.3	-18.3	-3.6	40.4	28.2
	Manufacturing	175	21.6	-1.5	-27.2	-13.4	2.4	42.2	33.7
	Basic materials	37	43.6	2.1	-52.0	-19.1	9.3	63.8	56.5
	Processing	84	19.6	-2.6	-24.5	-17.4	0.8	47.3	33.5
	Nonmanufacturing	153	9.7	3.7	-14.3	-20.9	-9.9	31.3	18.9
	Nonmanufacturing (ex financials)	129	12.2	9.7	-16.0	-23.6	-10.3	38.2	21.4
Broad sectors	Materials	37	43.6	2.1	-52.0	-19.1	9.3	63.8	56.5
	Machinery, autos	45	16.5	-8.9	-23.9	-32.9	-14.6	71.8	51.1
	Electronics	39	26.1	9.3	-25.3	7.6	25.7	22.8	14.3
	Consumer, distribution	98	14.8	2.8	-9.5	-17.7	-12.5	32.2	31.4
	Information	26	6.1	33.1	-35.2	76.9	113.6	-8.9	-25.0
	Utilities, infrastructure	59	9.6	-2.5	-2.6	-77.4	-74.5	228.0	185.5
	Financials	24	4.4	-10.5	-9.1	-13.7	-8.7	14.4	12.0
Sectors	Chemicals	31	34.2	4.5	-34.2	-28.5	-11.5	34.0	37.5
	Steel, nonferrous metals	6	93.4	-7.3	SL	LS	SP	SP	328.5
	Machinery	26	29.3	9.6	-30.0	-21.2	-16.0	41.5	52.7
	Autos	19	12.9	-14.6	-21.5	-37.1	-14.0	84.9	50.5
	Electrical machinery, precision equipment	39	26.1	9.3	-25.3	7.6	25.7	22.8	14.3
	Pharmaceuticals, healthcare	21	5.9	-3.5	8.0	16.7	17.0	24.3	25.3
	Food products	19	4.8	-3.7	-15.6	-2.1	-1.8	12.6	8.5
	Household goods	14	20.8	6.9	-7.5	-22.9	-19.3	22.8	26.1
	Trading companies	7	31.2	10.4	-27.9	-30.9	-17.7	54.8	54.0
	Retailing	19	12.4	3.3	4.1	-27.8	-19.1	34.7	27.5
	Services	18	10.9	0.0	1.7	-33.2	-32.0	39.6	38.9
	Software	12	44.2	16.7	20.1	30.0	35.4	17.8	19.2
	Media	5	9.6	4.1	-57.5	-27.3	SL	123.2	SP
	Telecommunications	9	1.4	38.5	-41.4	97.5	151.5	-16.7	-36.1
	Construction, engineering	7	9.8	-1.1	0.6	-10.1	-11.3	6.1	5.1
	Housing, real estate	18	9.9	-2.7	5.4	-23.7	-17.6	22.2	16.1
	Transportation	24	9.0	2.2	-17.4	SL	SL	SP	SP
	Utilities	10	10.2	-12.8	17.7	-19.8	-22.2	2.1	-5.5
	Financials	24	4.4	-10.5	-9.1	-13.7	-8.7	14.4	12.0

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 March 2021; previous estimates as of 1 December 2020. (2) SP = switch to profits. SL = switch to losses. LS = losses shrinking. LI = losses increasing.

Source: Nomura

Fig. 8: Recurring profits by sector

(¥bn, except where noted)

		No. of cos	FY17	FY18	FY19	FY20E Old	FY20E New	FY21E Old	FY21E New
Industrial groups	Russell/Nomura Large Cap	329	47,681	48,162	38,542	31,423	36,528	43,408	46,458
	Russell/Nomura Large Cap (ex financials)	305	40,521	41,796	32,757	26,532	31,355	37,842	40,692
	Manufacturing	175	23,855	23,510	17,180	14,750	17,472	21,254	23,544
	Basic materials	37	4,971	4,963	2,453	1,924	2,598	3,067	3,978
	Processing	84	14,790	14,552	10,942	8,995	11,007	13,509	14,857
	Nonmanufacturing	154	23,826	24,652	21,362	16,673	19,057	22,154	22,914
	Nonmanufacturing (ex financials)	130	16,666	18,286	15,578	11,782	13,883	16,589	17,148
Broad sectors	Materials	37	4,971	4,963	2,453	1,924	2,598	3,067	3,978
	Machinery, autos	45	9,755	8,911	6,745	4,510	5,763	7,893	8,768
	Electronics	39	5,035	5,641	4,197	4,486	5,244	5,615	6,089
	Consumer, distribution	98	10,162	10,312	9,397	7,723	8,218	10,474	11,056
	Information	27	4,317	5,753	3,728	6,509	7,969	5,920	5,973
	Utilities, infrastructure	59	6,280	6,216	6,236	1,381	1,564	4,873	4,827
	Financials	24	7,160	6,366	5,785	4,891	5,173	5,566	5,766
Sectors	Chemicals	31	3,911	4,036	2,758	1,951	2,414	2,567	3,266
	Steel, nonferrous metals	6	1,061	927	-305	-27	184	500	712
	Machinery	26	2,336	2,539	1,781	1,387	1,479	1,967	2,262
	Autos	19	7,419	6,372	4,964	3,122	4,283	5,926	6,506
	Electrical machinery, precision equipment	39	5,035	5,641	4,197	4,486	5,244	5,615	6,089
	Pharmaceuticals, healthcare	21	1,616	1,540	1,632	1,889	1,894	2,405	2,438
	Food products	19	1,723	1,625	1,387	1,340	1,344	1,532	1,479
	Household goods	14	755	830	765	602	629	741	791
	Trading companies	7	2,852	3,148	2,271	1,569	1,868	2,467	2,913
	Retailing	19	1,545	1,497	1,612	1,148	1,286	1,652	1,734
	Services	18	1,671	1,672	1,731	1,175	1,197	1,676	1,701
	Software	12	564	620	813	1,091	1,137	1,335	1,408
	Media	5	349	364	154	112	-52	183	183
	Telecommunications	10	3,404	4,769	2,761	5,305	6,883	4,402	4,382
	Construction, engineering	7	664	696	734	661	652	715	699
	Housing, real estate	18	2,054	2,055	2,165	1,608	1,735	2,120	2,184
	Transportation	24	2,450	2,474	2,170	-1,800	-1,709	1,106	1,106
	Utilities	10	1,112	992	1,167	913	886	932	838
	Financials	24	7,160	6,366	5,785	4,891	5,173	5,566	5,766

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY19 differs from index composition from FY20 onwards. Accordingly, prior-year comparison base for y-y changes has altered, thereby resulting in different y-y figures than before. Latest estimates as of 1 March 2021; previous estimates as of 1 December 2020.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY19 Q4–FY20 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	-	-	-	-	-	-	-	-	-69.0	-53.3	-17.5	28.8	SL	-58.1	-16.2	37.8
	Russell/Nomura Large Cap (ex financials)	-8.1	-20.5	-10.2	-2.3	-59.9	-65.5	-27.6	10.1	-70.8	-59.5	-17.1	34.8	SL	-64.4	-14.2	41.1
	Manufacturing	-6.4	-25.1	-9.6	-1.3	-50.8	-73.6	-21.5	37.0	-67.5	-64.6	-22.9	49.5	SL	-83.4	-23.3	58.2
	Basic materials	-4.8	-23.4	-16.3	-8.2	SL	-84.0	-51.6	99.5	SL	-88.4	-56.3	88.5	SL	SL	-87.0	1,016.9
	Processing	-8.4	-29.9	-8.8	1.3	-39.7	-94.6	-17.3	37.7	-61.4	-76.4	-18.0	58.7	-98.6	-92.4	-8.2	49.3
	Nonmanufacturing	-	-	-	-	-	-	-	-	-70.5	-46.0	-12.1	14.0	SL	-43.6	-8.6	21.7
	Nonmanufacturing (ex financials)	-10.3	-14.4	-11.1	-3.8	-69.6	-55.7	-35.0	-19.8	-75.2	-55.3	-8.8	20.2	SL	-49.6	0.5	22.6
Broad sectors	Basic materials	-4.8	-23.4	-16.3	-8.2	SL	-84.0	-51.6	99.5	SL	-88.4	-56.3	88.5	SL	SL	-87.0	1,016.9
	Machinery, autos	-8.4	-37.8	-9.6	1.4	-54.2	SL	-18.9	53.5	-79.7	SL	-19.9	50.0	SL	SL	-22.8	46.5
	Electronics	-8.4	-15.2	-7.3	1.2	-20.1	-36.5	-15.3	19.4	-35.2	16.3	-15.1	74.2	-47.1	27.0	14.1	53.6
	Consumption, distribution	-4.5	-13.4	-8.3	-3.0	-19.8	-35.7	-15.1	-2.2	-39.9	-36.8	-17.3	-4.0	-42.7	-47.4	-29.9	-2.8
	Information	-34.8	-1.9	0.5	3.9	SL	14.5	-0.0	6.6	SL	-27.6	260.3	135.1	SL	12.2	SP	190.3
	Utilities, infrastructure	-4.8	-18.2	-16.9	-7.8	-36.4	-97.5	-64.0	-50.5	-38.8	-98.9	-61.2	-41.4	SL	SL	-67.0	-43.8
	Financials	-	-	-	-	-	-	-	-	-57.1	-16.0	-20.2	-2.5	-89.2	-26.8	-26.6	19.2
Sectors	Chemicals	-4.3	-24.0	-16.1	-8.5	-96.9	-69.8	-31.9	-8.6	SL	-72.8	-35.5	-13.5	SL	SL	-42.8	11.5
	Steel, nonferrous metals	-5.9	-21.4	-16.7	-7.3	SL	SL	SL	SP	SL	SL	SL	SP	SL	SL	SL	SP
	Machinery	0.8	-17.3	-7.1	-0.3	-42.8	-76.9	-20.0	42.8	-46.5	-68.2	-18.7	40.5	-54.4	-74.3	-23.6	6.7
	Automobiles	-11.1	-43.5	-10.3	1.8	-60.8	SL	-18.5	56.7	-95.8	SL	-20.3	52.7	SL	SL	-22.6	63.1
	Electrical machinery, precision equipment	-8.4	-15.2	-7.3	1.2	-20.1	-36.5	-15.3	19.4	-35.2	16.3	-15.1	74.2	-47.1	27.0	14.1	53.6
	Pharmaceuticals, healthcare	3.0	-4.1	-2.8	-0.6	14.5	11.8	-21.6	15.2	-2.5	15.0	-24.2	11.3	27.1	10.0	-41.5	18.2
	Food products	0.7	-8.7	-3.0	-4.0	-0.8	-3.2	15.3	-12.1	0.0	-5.6	10.9	-11.4	25.2	-6.2	5.3	-11.4
	Household goods	-6.0	-17.2	-9.0	-1.7	-21.9	-48.3	-19.7	-2.1	-27.4	-53.6	-19.6	7.9	-27.3	-75.2	-20.8	-1.4
	Trading companies	-9.6	-21.3	-14.1	-5.5	-48.0	-63.0	-37.5	-30.7	SL	-58.3	-37.6	-29.9	SL	-63.5	-37.8	-31.7
	Retailing	-1.3	-9.2	-5.5	-1.0	-8.8	-50.4	-1.4	17.9	-8.7	-51.5	-2.2	12.4	-21.3	-96.0	-18.3	16.4
	Services	-5.2	-9.7	-6.4	-1.8	-18.7	-51.5	-15.6	5.4	-19.5	-53.2	-16.2	4.6	-33.4	-66.4	-44.2	8.3
	Software	7.7	17.3	8.1	5.2	39.1	85.5	36.1	30.7	32.2	94.0	34.8	22.0	21.5	86.2	7.7	21.6
	Media	-5.1	-21.9	-20.9	-8.4	9.5	-68.5	-98.2	SL	40.4	-62.0	-87.6	LI	54.4	-97.4	SL	LI
	Telecommunications	-45.1	-2.2	2.5	5.6	SL	6.6	-0.4	13.0	SL	-33.8	587.8	182.0	SL	10.5	SP	269.6
	Construction, engineering	0.9	-9.9	-12.5	-9.2	-8.2	-8.8	-15.2	-8.1	-9.4	-6.5	-15.1	-9.6	-13.4	-17.7	-10.5	-7.0
	Housing, real estate	0.7	-5.4	-9.6	11.1	8.6	-17.0	-25.4	26.2	9.5	-21.4	-26.9	26.8	6.1	-29.3	-30.9	45.4
	Transportation	-9.4	-39.6	-33.7	-21.9	SL	SL	SL	-99.9	SL	SL	SL	-92.2	SL	SL	SL	SL
	Utilities	-8.0	-8.3	-6.6	-7.4	-50.9	-4.7	32.7	-84.2	-53.1	-22.5	41.9	-32.8	SL	-60.8	16.0	3.9
	Financials	-	-	-	-	-	-	-	-	-57.1	-16.0	-20.2	-2.5	-89.2	-26.8	-26.6	19.2

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 1 March 2021. (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			
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY19	FY20E	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	24.3	18.3	15.9	-	-	-	1.58	1.56	1.83	2.00	2.16	6.3	6.5	8.5	9.3
	Russell/Nomura Large Cap (ex loss-making cos)	18.5	16.5	14.4	-	-	-	1.55	1.60	1.91	2.21	2.39	7.9	8.8	8.6	9.3
	Russell/Nomura Large Cap (ex financials)	26.7	19.4	16.9	11.9	10.3	9.4	1.81	1.79	1.67	1.86	2.01	6.5	6.8	9.2	10.0
	Manufacturing	28.7	19.6	17.3	13.2	10.9	10.1	1.89	1.86	1.61	1.84	2.02	6.2	6.6	9.4	10.0
	Basic materials	35.5	16.0	15.0	8.9	6.7	6.5	1.16	1.20	1.94	2.27	2.36	1.6	3.4	7.5	7.6
	Processing	26.9	18.8	16.3	13.3	11.1	10.0	1.90	1.84	1.44	1.71	1.94	6.8	7.0	9.7	10.5
	Nonmanufacturing	20.3	16.9	14.4	-	-	-	1.31	1.31	2.10	2.19	2.33	6.5	6.5	7.8	8.7
	Nonmanufacturing (ex financials)	24.2	19.2	16.2	10.4	9.4	8.6	1.70	1.70	1.76	1.87	2.00	7.0	7.1	8.9	9.9
Broad sectors	Basic materials	35.5	16.0	15.0	8.9	6.7	6.5	1.16	1.20	1.94	2.27	2.36	1.6	3.4	7.5	7.6
	Machinery, autos	27.9	15.3	13.4	12.2	9.1	8.3	1.43	1.39	1.81	2.21	2.49	6.2	5.0	9.0	9.8
	Electronics	25.9	23.6	20.2	14.5	13.6	12.3	2.76	2.62	1.09	1.27	1.45	7.8	10.4	10.8	11.6
	Consumption, distribution	32.8	22.5	20.7	15.5	12.8	12.1	2.18	2.14	1.76	1.81	1.90	8.2	6.6	9.3	9.6
	Information	11.9	19.8	17.1	7.4	10.2	9.4	2.50	2.43	1.81	1.94	2.08	4.5	20.7	12.9	14.0
	Utilities, infrastructure	203.4	16.7	12.2	11.1	6.9	6.0	1.10	1.12	1.89	2.09	2.30	8.0	0.5	6.6	8.5
	Financials	11.1	10.5	9.2	-	-	-	0.61	0.59	3.88	3.83	4.04	5.5	5.4	5.7	6.3
	Chemicals	29.8	16.8	15.4	9.4	7.5	7.2	1.32	1.37	2.03	2.18	2.28	4.7	4.6	8.0	8.3
Sectors	Steel, nonferrous metals	-	12.3	12.7	6.6	4.2	4.2	0.70	0.71	1.41	2.76	2.81	-6.5	-0.2	6.0	5.6
	Machinery	39.6	24.5	21.7	17.8	14.8	13.7	2.26	2.20	1.07	1.40	1.65	7.4	5.6	9.3	9.8
	Automobiles	23.1	12.1	10.6	10.0	7.2	6.5	1.13	1.11	2.32	2.78	3.10	5.8	4.8	9.0	9.7
	Electrical machinery, precision equipment	25.9	23.6	20.2	14.5	13.6	12.3	2.76	2.62	1.09	1.27	1.45	7.8	10.4	10.8	11.6
	Pharmaceuticals, healthcare	33.1	25.7	23.6	18.4	15.9	15.0	2.73	2.65	1.75	1.79	1.83	8.1	8.2	10.0	10.4
	Food products	21.3	19.5	17.0	10.9	10.6	9.8	1.83	1.77	2.86	2.91	3.09	8.8	8.4	8.9	9.7
	Household goods	45.5	32.6	27.4	24.8	20.7	18.3	4.11	3.98	1.20	1.35	1.50	12.9	8.9	12.0	13.2
	Trading companies	15.8	9.3	9.4	6.6	5.2	5.2	1.06	1.01	3.51	3.47	3.56	8.6	6.6	10.8	10.0
	Retailing	54.8	31.4	28.6	20.1	15.6	14.7	3.27	3.25	1.04	1.05	1.12	9.0	6.0	10.3	10.6
	Services	51.6	32.9	28.1	24.4	19.2	17.5	1.96	2.00	1.14	1.22	1.30	6.0	3.9	5.9	6.6
	Software	25.1	22.0	20.5	21.2	19.1	18.0	5.15	4.56	2.04	2.25	2.42	15.5	19.1	20.3	20.0
	Media	-	22.4	18.3	90.0	14.6	12.8	1.05	1.13	1.70	1.76	1.76	2.3	-3.5	7.4	8.0
	Telecommunications	9.1	18.8	15.9	5.6	8.4	7.7	2.23	2.18	1.72	1.81	1.94	2.9	24.4	11.7	13.0
	Construction	9.0	8.9	8.6	7.6	7.6	7.4	0.99	0.89	3.32	3.32	3.41	12.6	10.5	10.1	9.8
	Housing, real estate	16.3	13.6	12.2	10.3	9.1	8.4	1.34	1.28	2.34	2.49	2.72	10.1	8.0	9.2	9.5
	Transportation	-	31.1	13.4	4332.2	8.6	6.3	1.27	1.45	0.94	1.26	1.53	6.9	-11.2	4.6	10.2
	Utilities	10.7	11.9	12.0	2.8	2.8	2.8	0.58	0.56	3.07	3.07	3.07	5.5	5.3	4.6	4.5
	Financials	11.1	10.5	9.2	-	-	-	0.61	0.59	3.88	3.83	4.04	5.5	5.4	5.7	6.3
	Russell/Nomura Small Cap	26.4	18.0	16.9	-	-	-	1.18	1.13	2.11	2.24	2.30	5.3	4.3	5.9	6.0
	Russell/Nomura Small Cap (ex financials)	29.5	19.4	18.0	11.2	9.0	8.7	1.36	1.30	1.68	1.76	1.82	5.6	4.4	6.2	6.4

Note: As of 1 March 2021.

Source: Nomura

What are the Russell/Nomura Japan Equity Indexes?

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

Russell/Nomura Japan Equity Indexes should be useful in:

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

Russell/Nomura Japan Equity Indexes have the following characteristics:

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

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

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As at 31 December 2020.

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In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥11,000 (tax included) per issue transferred depending on volume. No account fee will be charged for marketable securities or monies deposited.

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