News Release

NOMURA

Outlook for FY21-22 corporate earnings

Quarterly Update

6 September 2021

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Summary and major assumptions

Overview of the corporate earnings outlook for FY21

Our analysts' forecasts put FY21 sales growth for Russell/Nomura Large Cap companies at 11.8% y-y, operating profit growth at 52.6%, recurring profit growth at 28.3%, and after-tax profit growth at 31.1% (sales and operating profit figures exclude financial companies, same throughout this report). SoftBank Group [9984] had large profits in its investment fund operations in FY20, and this is pushing down the growth rates for recurring profits and after-tax profits in FY21. Excluding SoftBank Group, our analysts forecast recurring profit growth for Russell/Nomura Large Cap companies at 45.6% and after-tax profit growth at 57.8%.

When indexing FY18 sales for Russell/Nomura Large Cap Index companies to 100, the reading for FY21 sales comes to 100.9, meaning that sales are expected to return to the pre-pandemic level. Similarly, when indexing FY18 recurring profits to 100, the FY21 reading comes to 106.5, showing that an even higher rate of recovery is expected for recurring profits. This improvement in profitability reflects factors such as companies' success with cutting costs during the pandemic and strong demand for goods amid restricted supply. Our forecasts put the FY21 recurring margin at 8.9%, 0.9ppt higher than in FY18.

Overview of the corporate earnings outlook for FY22

Our analysts' forecasts put FY22 sales growth for Russell/Nomura Large Cap companies at 3.3% y-y, operating profit growth at 11.8%, recurring profit growth at 10.9%, and after-tax profit growth at 11.2%. The average annual recurring profit growth rate for the five years prior to the pandemic (FY13-18) was 4.7%. Our analysts' forecasts call for recurring profits to top the pre-pandemic level in FY21, and for the growth rate in FY22 to be higher than the past average. The economy is expected to continue to normalize from the effects of the pandemic, and margins are expected to remain high; for example, in the automobile sector, automakers are expected to be able to keep discounts down with inventories expected to remain substantially lower than normal through autumn 2022.

Our analysts' recurring profit forecasts for FY21 and FY22 have been revised up 7.5% and 3.6%, respectively, since the last time we compiled analysts' forecasts on 1 June. The upward revisions (in value terms) were particularly large for sectors such as trading companies, automobiles, transportation, and electrical machinery & precision equipment. Supply chain constraints such as a shortage of semiconductors and high input prices are considered risk factors for corporate earnings, namely due to lost sales opportunities. That said, rising resource prices have improved the outlook for related sectors, and better positioning for negotiating prices thanks to tight supply-demand is leading to better margins and, in turn, a stronger corporate earnings outlook.

That said, supply chain concerns remain a risk factor for the corporate earnings outlook. It looks as though high input prices will start to squeeze margins in earnest starting in Q2. Meanwhile, the spread of COVID-19 variants is not only slowing down the normalization of economies, but is also causing supply chain problems for certain sectors, for instance as a result of a drop in plant capacity utilization.

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

(%)

		No. of cos	FY18	FY19	FY20	FY21E	FY22E	Old FY21E	Old FY22E
Sales	Russell/Nomura Large Cap (ex financials)	310	6.5	-2.5	-7.5	11.8	3.3	9.9	3.5
	Manufacturing	173	3.0	-2.7	-8.0	15.1	3.7	11.9	3.6
	Basic materials	36	7.0	-2.0	-12.1	24.5	0.3	19.8	0.6
	Processing	79	1.7	-4.5	-7.7	15.2	5.1	11.7	4.8
	Nonmanufacturing (ex financials)	137	11.5	-2.3	-6.8	7.7	2.8	7.4	3.4
	Russell/Nomura Small Cap (ex financials)	1,143	4.6	0.3	-6.1	5.0	3.9	4.1	2.8
Operating profits	Russell/Nomura Large Cap (ex financials)	310	3.6	-23.7	-18.9	52.6	11.8	43.7	15.7
	Manufacturing	173	0.3	-23.2	-3.4	51.8	10.9	39.8	13.2
	Basic materials	36	0.1	-48.7	13.7	98.5	-0.4	73.1	5.4
	Processing	79	0.2	-20.1	-8.6	53.8	13.6	40.6	15.1
	Nonmanufacturing (ex financials)	137	8.0	-24.3	-36.2	53.9	13.4	50.2	19.5
	Russell/Nomura Small Cap (ex financials)	1,143	-2.4	-6.0	-12.5	34.1	12.5	25.1	11.1
Recurring profits	Russell/Nomura Large Cap	334	1.1	-20.5	4.5	28.3	10.9	19.3	15.1
	Russell/Nomura Large Cap (ex financials)	310	3.1	-22.3	5.6	30.6	10.9	21.6	15.0
	Manufacturing	173	-1.5	-27.2	7.6	46.6	9.7	34.7	12.4
	Basic materials	36	2.1	-52.0	13.7	106.0	-0.8	77.8	5.7
	Processing	79	-2.6	-24.5	8.7	43.1	11.6	31.0	13.4
	Nonmanufacturing	161	3.7	-14.3	2.0	12.6	12.2	6.0	18.1
	Nonmanufacturing (ex financials)	137	9.7	-16.0	3.3	12.0	12.8	6.5	18.8
	Russell/Nomura Small Cap	1,233	-1.8	-7.3	-5.9	30.7	8.6	18.5	9.3
	Russell/Nomura Small Cap (ex financials)	1,143	0.3	-9.5	-7.0	34.5	9.0	20.8	9.8
Net profits	Russell/Nomura Large Cap	334	-4.5	-31.6	16.3	31.1	11.2	20.0	16.4
	Russell/Nomura Large Cap (ex financials)	310	-1.1	-35.6	18.3	34.1	11.4	23.4	16.4
	Manufacturing	173	-4.3	-40.3	16.4	51.5	9.3	38.5	12.9
	Basic materials	36	0.9	-82.6	73.7	202.0	-2.9	156.4	5.2
	Processing	79	-5.9	-37.9	18.9	42.1	12.0	29.9	14.2
	Nonmanufacturing	161	-4.7	-22.2	16.2	13.4	13.3	4.2	20.5
	Nonmanufacturing (ex financials)	137	3.9	-28.8	20.7	13.5	14.6	5.6	21.8
	Russell/Nomura Small Cap	1,233	-5.9	-12.0	2.1	50.3	7.7	32.3	10.8
	Russell/Nomura Small Cap (ex financials)	1,143	-3.4	-13.9	1.2	59.7	8.0	39.1	11.9

Note: Latest estimates as of 1 September 2021, previous estimates as of 1 June 2021.
Source: Nomura

Fig. 2: Major assumptions

	As of 15 Jul 2021					As of 19 Apr 2021				
	Industrial production 2015se year	Policy rate (FY-end)	WTI	Exchange rate (avg)		Industrial production 2015 base year	Policy rate (FY-end)	WTI	Exchange rate (avg)	
	%y-y	%	$/bbl	USD/JPY	EUR/JPY	%y-y	%	$/bbl	USD/JPY	EUR/JPY
FY20E	-9.8	-0.10	42.3	106.00	123.69	-9.6	-0.10	42.3	106.00	123.69
FY21E	13.5	-0.10	69.4	109.10	129.72	13.6	-0.10	61.1	108.00	129.00
FY22E	6.4	-0.10	64.8	109.00	129.00	5.7	-0.10	56.8	108.00	129.00
FY20 H1	-16.7	-0.10	34.4	106.80	121.26	-16.7	-0.10	34.4	106.80	121.26
FY20E H2	-2.8	-0.10	50.2	105.21	126.12	-2.6	-0.10	50.2	105.21	126.12
FY21E H1	17.3	-0.10	69.3	109.21	130.44	17.6	-0.10	60.8	108.00	129.00
FY21E H2	10.2	-0.10	69.5	109.00	129.00	10.1	-0.10	59.3	108.00	129.00
FY22E H1	8.1	-0.10	66.3	109.00	129.00	7.3	-0.10	57.0	108.00	129.00
FY22E H2	4.9	-0.10	63.3	109.00	129.00	4.1	-0.10	55.5	108.00	129.00

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

Overview of the corporate earnings outlook for FY21

For FY21, our analysts expect recurring profits to increase in 15 of 19 sectors and fall in 4.

Sectors expected to make large contributions to overall profit growth include automobiles, transportation, trading companies, and chemicals.

Earnings in the automobile sector were favorable in Apr-Jun. This is because of factors such as fewer defaults on loans, a rise in used car prices, and reduced incentives in the US, where market conditions are favorable. All of the automakers also made headway with cost cutting. Our team expects earnings at automakers to slow in Jul-Sep on a disruption in the supply of parts beyond semiconductors because of rising COVID-19 infections in Southeast Asia, but expects a V-shaped recovery from Oct-Dec on strong demand, particularly in North America. In the transportation sector, the shipping subsector is performing favorably. Containership volumes are up, particularly on North America routes, and rates are high. Our teams expects transport volumes to remain high in H2 and only a gradual softening in rates. For railways and airlines, the recovery in passenger numbers has been delayed, but progress is being made with cutting costs and passenger numbers are expected to recover as vaccines become more widespread. At trading companies, the business environment is improving for resource operations with iron ore and copper prices remaining at a high level, and coking coal prices also on the rise. The business environment is also improving for non-resource operations, with demand for products such as automobiles and chemicals recovering. For chemicals, electronic materials for semiconductors are performing well, and companies are expected to benefit from better margins in petrochemical operations as a result of higher demand from the construction and automotive sectors and higher demand for display materials.

Sectors expected to contribute substantially to profit declines are telecommunications, utilities, construction, and software.

For telecoms, the impact on sector earnings from the dropping out of investment gains booked in FY20 at SoftBank Group is large. When excluding SoftBank Group, sector profits are expected to increase. For utilities, companies are expected to incur losses related to the fuel cost adjustment system, and major electric power and city gas companies are expected to continue to lose business to other companies. In the construction sector, margins are deteriorating due to steeper competition to win orders for large projects, and gross margins in building construction operations are expected to fall. For software, earnings are expected to slow in the amusement subsector, which to date has benefitted from stay-at-home spending.

Overview of the corporate earnings outlook for FY22

For FY22, our analysts expect recurring profits to increase in 15 of 19 sectors and fall in 4.

Sectors expected to make large contributions to overall profit growth include transportation, automobiles, telecoms, and electrical machinery & precision instruments.

For transportation, our team expects a recovery in passenger revenues as more people get vaccinated. For example, we expect passenger revenues on domestic routes to return to pre-pandemic levels in FY22. For automobiles, we expect the semiconductor shortage to be alleviated and forecast a sharp increase in shipments as dealers in North America build up inventories. Margins are also expected to remain high as automakers are expected to be able to keep discounts down with inventories expected to remain substantially lower than normal through autumn 2022. We expect profits to grow in the telecommunications sector, mainly because we expect growth in investment fund profits at SoftBank Group, as well as growth in telecoms and non-telecoms businesses, including financial services. For electrical machinery & precision instruments, we see little risk of inventory adjustments for electronic parts as there is not enough capacity to increase production enough for customers to build up inventories. We also expect increased demand for semiconductors on brisk end demand and due to customers' desires to build up inventories. We also expect companies to capture demand related to carbon neutral efforts.

Sectors expected to contribute substantially to profit declines are trading companies, steel & nonferrous metals, media, and software

For trading companies, earnings in resource operations are expected to slow based on the assumption of a pause in the rise in resource prices. We expect profits to fall for steel & nonferrous metals mainly because we forecast a deterioration in inventory valuation gains/losses. For the media sector, we expect y-y performance to be hit by the drop-out of gains on the transfer of fixed assets that we expect to see recorded in FY21. For software, as per FY21, we expect the amusement subsector to cause sector profits to decline.

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

FY21E

Increase in profits (%)

15 sectors	Growth	Contribution	Contribution (ex financials)
Automobiles	62.8	26.7	28.7
Transportation	SP	26.5	28.5
Trading companies	145.6	21.4	23.0
Chemicals	72.1	15.0	16.1
Electrical machinery, precision equipment	23.2	11.5	12.4
Steel, nonferrous metals	399.8	9.6	10.3
Machinery	53.8	7.7	8.2
Financials	14.4	7.0	-
Pharmaceuticals, healthcare	19.3	3.1	3.4
Media	SP	3.0	3.2
Retailing	21.1	2.5	2.7
Housing, real estate	13.3	2.4	2.5
Household goods	28.8	1.5	1.6
Food	8.3	1.0	1.1
Services	6.8	0.9	1.0

Decrease in profits (%)

4 sectors	Growth	Contribution	Contribution (ex financials)
Software	-0.9	-0.1	-0.1
Construction	-15.3	-0.9	-0.9
Utilities	-35.7	-3.0	-3.2
Telecommunications	-48.9	-35.9	-38.6

FY22E

Increase in profits (%)

15 sectors	Growth	Contribution	Contribution (ex financials)
Transportation	80.6	20.5	23.2
Automobiles	13.0	18.3	20.7
Telecommunications	20.6	15.7	17.8
Electrical machinery, precision equipment	10.5	13.0	14.7
Financials	10.4	11.7	-
Pharmaceuticals, healthcare	18.1	7.1	8.1
Machinery	10.3	4.6	5.2
Housing, real estate	10.1	4.1	4.6
Retailing	13.8	4.1	4.6
Food	13.8	3.7	4.2
Utilities	29.7	3.3	3.7
Chemicals	2.6	1.9	2.1
Construction	18.8	1.8	2.1
Services	5.1	1.5	1.7
Household goods	8.9	1.2	1.4

Decrease in profits (%)

4 sectors	Growth	Contribution	Contribution (ex financials)
Software	-1.8	-0.4	-0.4
Media	-10.9	-0.5	-0.6
Steel, nonferrous metals	-10.8	-2.6	-3.0
Trading companies	-12.0	-8.8	-10.0

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

Source: Nomura

Revisions to recurring profit estimates (versus old estimates)

Overview of the corporate earnings outlook for FY21

Our analysts have raised their FY21 recurring profit forecasts for 12 of the 19 sectors and lowered them for the remaining 7.

The upward revisions (in value terms) were particularly large for sectors such as trading companies, automobiles, transportation, and finance. For trading companies, the upward revision reflects favorable resource prices, including for iron ore and coking coal, and a recovery in demand in non-resource operations, namely automobiles and chemicals. For the automobile sector, the upward revision reflects factors such as favorable market conditions in North America and cost cuts. The shortage of semiconductors and rise in COVID-19 cases is affecting the supply chain, but even if output were to fall, we think that this could be partially offset by curbs on discounting as a result of tight supply-demand conditions. For transportation, our team has mainly raised its forecast for the shipping subsector. Containership spot rates are trending upward. We think that shipping rates will remain higher than we had previously expected, as we expect shipping demand to remain high as a result of changes in peoples' lifestyles during the pandemic. In the finance industry, the pandemic has taken less of a toll than previously anticipated, and upward revisions to analysts' forecasts reflect both this and the present strength of earnings.

The downward revisions (in value terms) were particularly large for sectors such as software, utilities, telecommunications, and retail. Many of the industries for which forecasts were revised up benefited from the improvement in the overseas demand environment, whereas many of the industries for which forecasts were revised down were domestic demand industries, and therefore are not benefiting from the improvement in this environment.

Overview of the corporate earnings outlook for FY22

Our analysts have raised their FY22 recurring profit forecasts for 12 of the 19 sectors and lowered them for the remaining 7. The upward revisions (in value terms) were particularly large for sectors such as automobiles, trading companies, transportation, and electrical machinery & precision equipment. The downward revisions (in value terms) were particularly large for sectors such as software, telecommunications, services, and household goods. The list of industries with upward and downward revisions is similar to that for FY21.

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

FY21E

[Upward revisions] 12 sectors

	New ¥bn	Old ¥bn	Revision ¥bn	Change %
Trading companies	4,142	3,306	836.2	25.3
Automobiles	7,919	7,096	823.4	11.6
Transportation	1,434	859	575.1	67.0
Financials	6,356	5,815	541.5	9.3
Chemicals	4,098	3,568	530.6	14.9
Electrical machinery, precision equipment	7,017	6,499	518.3	8.0
Steel, nonferrous metals	1,373	1,154	218.8	19.0
Machinery	2,509	2,374	134.8	5.7
Services	1,638	1,566	71.9	4.6
Housing, real estate	2,293	2,225	68.5	3.1
Pharmaceuticals, healthcare	2,222	2,191	31.1	1.4
Food	1,510	1,509	0.5	0.0

[Downward revisions] 7 sectors

	New ¥bn	Old ¥bn	Revision ¥bn	Change %
Media	276	286	-10.0	-3.5
Household goods	771	798	-27.1	-3.4
Construction	550	613	-62.4	-10.2
Retailing	1,667	1,737	-70.2	-4.0
Telecommunications	4,292	4,399	-107.1	-2.4
Utilities	620	796	-175.5	-22.0
Software	1,197	1,454	-256.2	-17.6

FY22E

[Upward revisions] 12 sectors

	New ¥bn	Old ¥bn	Revision ¥bn	Change %
Automobiles	8,951	8,113	837.7	10.3
Trading companies	3,644	3,213	431.0	13.4
Transportation	2,590	2,174	415.5	19.1
Electrical machinery, precision equipment	7,752	7,377	375.3	5.1
Chemicals	4,203	3,832	371.3	9.7
Financials	7,019	6,743	275.8	4.1
Machinery	2,768	2,614	153.7	5.9
Housing, real estate	2,525	2,456	68.9	2.8
Steel, nonferrous metals	1,225	1,161	64.0	5.5
Pharmaceuticals, healthcare	2,623	2,578	45.8	1.8
Media	246	229	16.7	7.3
Food	1,718	1,704	13.6	0.8

[Downward revisions] 7 sectors

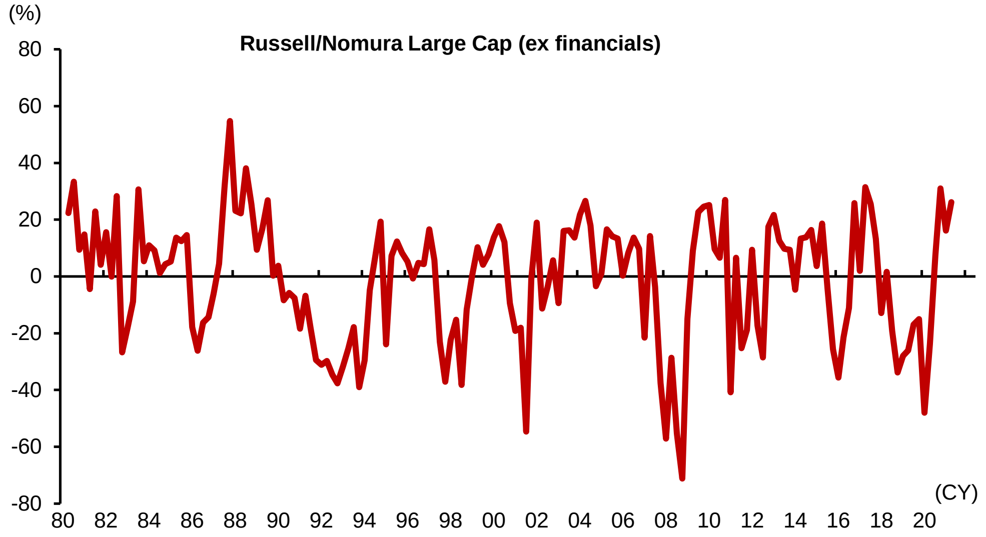
	New ¥bn	Old ¥bn	Revision ¥bn	Change %
Construction	654	684	-29.8	-4.4
Retailing	1,897	1,936	-38.7	-2.0
Utilities	805	872	-67.6	-7.8
Household goods	840	929	-88.9	-9.6
Services	1,722	1,885	-163.4	-8.7
Telecommunications	5,177	5,369	-192.6	-3.6
Software	1,176	1,662	-486.5	-29.3

Note: Latest estimates as of 1 September 2021, previous estimates as of 1 June 2021.
Source: Nomura

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

(%)

(yy/m)	19/12	20/3	20/6	20/9	20/12	21/3	21/6	21/9
Russell/Nomura Large Cap	-15.6	-15.5	-45.5	-25.5	7.6	29.3	16.2	25.7
Russell/Nomura Large Cap (ex financials)	-16.9	-15.0	-48.0	-23.9	7.2	31.0	16.1	26.1
Manufacturing	-25.7	-21.7	-57.7	-17.7	7.4	38.7	18.5	32.4
Basic materials	-56.1	-40.5	-64.9	-29.7	18.9	52.8	61.1	36.1
Processing	-32.5	-23.8	-63.1	-14.3	20.2	64.6	27.8	46.8
Nonmanufacturing (ex financials)	-4.7	-6.1	-35.1	-32.1	6.9	21.2	13.1	18.2



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	FY18	FY19	FY20	FY21E Old	FY21E New	FY22E Old	FY22E New
Industrial groups	Russell/Nomura Large Cap (ex financials)	310	6.5	-2.5	-7.5	9.9	11.8	3.5	3.3
	Manufacturing	173	3.0	-2.7	-8.0	11.9	15.1	3.6	3.7
	Basic materials	36	7.0	-2.0	-12.1	19.8	24.5	0.6	0.3
	Processing	79	1.7	-4.5	-7.7	11.7	15.2	4.8	5.1
	Nonmanufacturing (ex financials)	137	11.5	-2.3	-6.8	7.4	7.7	3.4	2.8
Broad sectors	Materials	36	7.0	-2.0	-12.1	19.8	24.5	0.6	0.3
	Machinery, autos	40	2.2	-4.4	-10.4	13.9	18.4	5.7	6.6
	Electronics	39	0.8	-4.8	-3.0	8.4	10.4	3.3	2.8
	Consumer, distribution	103	15.5	-0.6	-4.4	7.7	9.7	2.2	1.3
	Information	30	3.7	-7.4	-0.6	5.3	3.4	3.3	2.8
	Utilities, infrastructure	62	3.8	0.2	-12.2	5.0	3.2	5.7	6.0
Sectors	Chemicals	30	8.0	-1.2	-12.4	16.9	22.8	1.4	0.3
	Steel, nonferrous metals	6	4.7	-3.9	-11.3	28.0	29.4	-1.5	0.6
	Machinery	24	3.0	-3.6	-5.5	8.7	12.1	5.0	5.0
	Autos	16	2.0	-4.6	-11.8	15.4	20.2	5.9	7.0
	Electrical machinery, precision equipment	39	0.8	-4.8	-3.0	8.4	10.4	3.3	2.8
	Pharmaceuticals, healthcare	24	3.5	9.7	-2.1	3.5	4.5	2.5	2.5
	Food products	20	2.5	0.7	-3.9	1.0	0.8	3.1	3.1
	Household goods	14	3.5	-0.8	-7.4	5.8	7.8	5.1	2.6
	Trading companies	8	45.0	-5.0	-5.8	11.6	18.1	0.6	-3.1
	Retailing	19	3.1	2.5	-3.4	14.2	12.7	3.9	7.6
	Services	18	1.9	-2.5	-4.0	0.1	-1.8	2.5	1.9
	Software	15	9.5	7.5	9.2	6.7	3.9	4.4	1.7
	Media	3	6.4	0.8	-12.9	9.6	-16.0	3.5	4.9
	Telecommunications	12	2.7	-10.7	-0.6	4.5	5.1	3.0	2.8
	Construction, engineering	8	8.0	5.1	-9.8	7.1	6.8	3.3	3.7
	Housing, real estate	20	5.4	2.3	-4.3	6.8	6.7	4.5	4.8
	Transportation	24	-1.1	-2.2	-28.2	19.1	20.2	11.5	10.7
	Utilities	10	6.6	-0.9	-3.1	-9.2	-15.5	2.0	3.4

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 September 2021; previous estimates as of 1 June 2021.
Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

(% y-y, except where noted)
(%)

		No. of cos	FY18	FY19	FY20	FY21E Old	FY21E New	FY22E Old	FY22E New
Industrial groups	Russell/Nomura Large Cap	334	1.1	-20.5	4.5	19.3	28.3	15.1	10.9
	Russell/Nomura Large Cap (ex financials)	310	3.1	-22.3	5.6	21.6	30.6	15.0	10.9
	Manufacturing	173	-1.5	-27.2	7.6	34.7	46.6	12.4	9.7
	Basic materials	36	2.1	-52.0	13.7	77.8	106.0	5.7	-0.8
	Processing	79	-2.6	-24.5	8.7	31.0	43.1	13.4	11.6
	Nonmanufacturing	161	3.7	-14.3	2.0	6.0	12.6	18.1	12.2
	Nonmanufacturing (ex financials)	137	9.7	-16.0	3.3	6.5	12.0	18.8	12.8
Broad sectors	Materials	36	2.1	-52.0	13.7	77.8	106.0	5.7	-0.8
	Machinery, autos	40	-8.9	-23.9	-7.0	45.8	60.5	13.3	12.4
	Electronics	39	9.3	-25.3	34.8	14.1	23.2	13.5	10.5
	Consumer, distribution	103	2.8	-9.5	-12.0	31.4	41.4	10.2	4.1
	Information	30	33.1	-35.2	157.0	-35.8	-39.6	18.3	14.4
	Utilities, infrastructure	62	-2.5	-2.6	-68.8	120.8	140.7	37.7	34.2
	Financials	24	-10.5	-9.1	-1.4	4.7	14.4	16.0	10.4
Sectors	Chemicals	30	4.5	-34.2	-11.6	49.8	72.1	7.4	2.6
	Steel, nonferrous metals	6	-7.3	SL	SP	320.1	399.8	0.6	-10.8
	Machinery	24	9.6	-30.0	-5.0	45.5	53.8	10.1	10.3
	Autos	16	-14.6	-21.5	-7.7	45.9	62.8	14.3	13.0
	Electrical machinery, precision equipment	39	9.3	-25.3	34.8	14.1	23.2	13.5	10.5
	Pharmaceuticals, healthcare	24	-3.5	8.0	11.8	17.6	19.3	17.6	18.1
	Food products	20	-3.7	-15.6	0.6	8.4	8.3	12.9	13.8
	Household goods	14	6.9	-7.5	-23.6	33.3	28.8	16.3	8.9
	Trading companies	8	10.4	-27.9	-26.8	96.0	145.6	-2.8	-12.0
	Retailing	19	3.3	4.1	-17.7	26.2	21.1	11.4	13.8
	Services	18	0.0	1.7	-14.3	2.1	6.8	20.3	5.1
	Software	15	16.7	20.1	39.6	18.8	-0.9	14.3	-1.8
	Media	3	4.1	-57.5	SL	SP	SP	-19.9	-10.9
	Telecommunications	12	38.5	-41.4	207.6	-47.6	-48.9	22.1	20.6
	Construction, engineering	8	-1.1	0.6	-13.4	-5.6	-15.3	11.6	18.8
	Housing, real estate	20	-2.7	5.4	-10.8	9.9	13.3	10.4	10.1
	Transportation	24	2.2	-17.4	SL	SP	SP	153.2	80.6
	Utilities	10	-12.8	17.7	-15.3	-17.5	-35.7	9.6	29.7
	Financials	24	-10.5	-9.1	-1.4	4.7	14.4	16.0	10.4

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 September 2021; previous estimates as of 1 June 2021. (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)

(¥bn)

		No. of cos	FY18	FY19	FY20	FY21E Old	FY21E New	FY22E Old	FY22E New
Industrial groups	Russell/Nomura Large Cap	334	48,162	38,542	40,173	48,244	51,886	55,529	57,531
	Russell/Nomura Large Cap (ex financials)	310	41,796	32,757	34,590	42,429	45,529	48,786	50,512
	Manufacturing	173	23,510	17,180	18,613	25,189	27,419	28,307	30,079
	Basic materials	36	4,963	2,453	2,721	4,722	5,471	4,993	5,428
	Processing	79	14,552	10,942	12,114	15,968	17,444	18,104	19,471
	Nonmanufacturing	161	24,652	21,362	21,560	23,055	24,467	27,223	27,452
	Nonmanufacturing (ex financials)	137	18,286	15,578	15,977	17,240	18,111	20,479	20,433
Broad sectors	Materials	36	4,963	2,453	2,721	4,722	5,471	4,993	5,428
	Machinery, autos	40	8,911	6,745	6,492	9,469	10,427	10,727	11,719
	Electronics	39	5,641	4,197	5,622	6,499	7,017	7,377	7,752
	Consumer, distribution	103	10,312	9,397	8,260	11,108	11,951	12,244	12,443
	Information	30	5,753	3,728	9,589	6,139	5,765	7,260	6,598
	Utilities, infrastructure	62	6,216	6,236	1,906	4,492	4,898	6,186	6,572
	Financials	24	6,366	5,785	5,583	5,815	6,356	6,743	7,019
Sectors	Chemicals	30	4,036	2,758	2,425	3,568	4,098	3,832	4,203
	Steel, nonferrous metals	6	927	-305	296	1,154	1,373	1,161	1,225
	Machinery	24	2,539	1,781	1,670	2,374	2,509	2,614	2,768
	Autos	16	6,372	4,964	4,822	7,096	7,919	8,113	8,951
	Electrical machinery, precision equipment	39	5,641	4,197	5,622	6,499	7,017	7,377	7,752
	Pharmaceuticals, healthcare	24	1,540	1,632	1,810	2,191	2,222	2,578	2,623
	Food products	20	1,625	1,387	1,373	1,509	1,510	1,704	1,718
	Household goods	14	830	765	596	798	771	929	840
	Trading companies	8	3,148	2,271	1,663	3,306	4,142	3,213	3,644
	Retailing	19	1,497	1,612	1,310	1,737	1,667	1,936	1,897
	Services	18	1,672	1,731	1,509	1,566	1,638	1,885	1,722
	Software	15	620	813	1,172	1,454	1,197	1,662	1,176
	Media	3	364	154	-2	286	276	229	246
	Telecommunications	12	4,769	2,761	8,419	4,399	4,292	5,369	5,177
	Construction, engineering	8	696	734	636	613	550	684	654
	Housing, real estate	20	2,055	2,165	1,878	2,225	2,293	2,456	2,525
	Transportation	24	2,474	2,170	-1,573	859	1,434	2,174	2,590
	Utilities	10	992	1,167	965	796	620	872	805
	Financials	24	6,366	5,785	5,583	5,815	6,356	6,743	7,019

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY20 differs from index composition from FY21 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 September 2021; previous estimates as of 1 June 2021.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY20 Q2–FY21 Q1)

		%y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	-17.5	28.9	263.8	146.7	-16.2	37.8	SP	159.3
	Russell/Nomura Large Cap (ex financials)	-10.2	-2.3	3.6	25.3	-27.6	10.2	49.2	221.6	-17.1	34.9	290.9	182.3	-14.2	41.1	SP	200.3
	Manufacturing	-9.6	-1.2	5.6	35.5	-21.5	37.1	141.8	382.7	-22.9	49.6	227.3	302.9	-23.3	58.2	1,629.7	591.7
	Basic materials	-16.3	-8.2	2.5	33.0	-51.6	99.5	SP	958.9	-56.3	88.5	SP	1,439.7	-87.0	1,016.9	SP	SP
	Processing	-8.8	1.3	8.2	45.0	-17.3	37.7	93.0	1,285.3	-18.0	58.8	172.8	462.7	-8.2	49.3	904.5	810.4
	Nonmanufacturing	-	-	-	-	-	-	-	-	-12.1	14.0	318.7	78.1	-8.6	21.7	SP	60.7
	Nonmanufacturing (ex financials)	-11.1	-3.8	1.2	13.9	-35.0	-19.8	-27.1	96.9	-8.8	20.2	447.4	99.9	0.5	22.6	SP	66.6
Broad sectors	Basic materials	-16.3	-8.2	2.5	33.0	-51.6	99.5	SP	958.9	-56.3	88.5	SP	1,439.7	-87.0	1,016.9	SP	SP
	Machinery, autos	-9.6	1.4	7.4	59.5	-18.9	53.5	179.7	SP	-19.9	50.0	274.7	SP	-22.8	46.5	SP	SP
	Electronics	-7.3	1.2	9.5	26.9	-15.3	19.5	32.4	142.9	-15.1	74.3	88.8	61.6	14.1	53.7	138.1	74.4
	Consumption, distribution	-8.3	-2.9	6.6	18.8	-15.1	-2.0	6.9	89.0	-17.3	-3.9	47.6	102.7	-29.9	-2.8	52.5	132.8
	Information	0.5	3.9	-4.0	9.2	-0.0	6.6	12.6	4.5	260.3	135.1	SP	27.2	SP	190.3	SP	-19.6
	Utilities, infrastructure	-16.9	-7.8	-6.5	3.5	-64.0	-50.5	-74.5	1,040.2	-61.2	-41.4	-75.1	1,625.8	-67.0	-43.8	LI	SP
	Financials	-	-	-	-	-	-	-	-	-20.2	-2.5	116.0	38.8	-26.6	19.2	8,108.7	48.8
Sectors	Chemicals	-16.1	-8.5	3.3	32.7	-31.9	-8.6	2,376.2	354.6	-35.5	-13.5	3,802.4	432.2	-42.8	11.5	SP	SP
	Steel, nonferrous metals	-16.7	-7.3	0.2	33.6	SL	SP	SP	SP	SL	SP	SP	SP	SL	SP	SP	SP
	Machinery	-7.1	-0.3	5.2	29.2	-20.0	42.8	71.9	252.3	-18.7	40.5	133.0	193.6	-23.6	6.7	150.7	191.7
	Automobiles	-10.3	1.8	8.1	70.9	-18.5	56.7	269.6	SP	-20.3	52.7	382.1	SP	-22.6	63.1	SP	SP
	Electrical machinery, precision equipment	-7.3	1.2	9.5	26.9	-15.3	19.5	32.4	142.9	-15.1	74.3	88.8	61.6	14.1	53.7	138.1	74.4
	Pharmaceuticals, healthcare	-2.8	-0.6	-2.2	10.1	-21.6	15.2	29.8	30.1	-24.2	11.3	71.0	33.1	-41.5	18.2	45.5	34.5
	Food products	-3.0	-3.4	-0.9	7.6	15.3	-11.2	33.4	25.6	10.9	-10.5	38.1	30.7	5.3	-11.4	43.5	27.1
	Household goods	-9.0	-1.2	2.6	20.1	-19.7	-1.7	-9.3	95.4	-19.6	7.9	11.2	132.8	-20.8	-1.4	-24.5	258.9
	Trading companies	-14.1	-5.5	19.2	36.4	-37.5	-30.7	8.1	246.3	-37.6	-29.9	SP	240.5	-37.8	-31.7	SP	292.4
	Retailing	-5.5	-1.0	-1.1	9.1	-1.4	17.9	-18.9	83.6	-2.2	12.4	-15.2	97.3	-18.3	16.4	-15.5	424.6
	Services	-6.4	-1.8	1.2	8.8	-15.6	5.4	7.2	143.4	-16.2	4.6	8.2	145.8	-44.2	8.3	-49.6	207.0
	Software	8.1	5.2	8.5	5.9	36.1	30.7	13.6	7.2	34.8	22.0	29.7	11.2	7.7	21.6	64.6	14.2
	Media	-20.9	-8.4	-2.0	24.6	-98.2	SL	9.2	978.0	-87.6	LI	-8.9	886.0	SL	LI	-54.7	SP
	Telecommunications	2.5	5.6	-6.3	8.8	-0.4	13.0	12.7	-4.8	587.8	182.0	SP	26.4	SP	269.6	SP	-26.1
	Construction, engineering	-12.5	-9.2	-8.0	4.7	-15.2	-8.1	-19.9	-33.1	-15.1	-9.6	-18.5	-29.4	-10.5	-7.0	-11.9	-29.4
	Housing, real estate	-9.6	11.1	-11.0	11.3	-25.4	26.2	-14.6	41.6	-26.9	26.8	-16.0	40.0	-30.9	45.4	-15.9	54.4
	Transportation	-33.7	-21.9	-16.7	19.8	SL	-99.9	LI	LS	SL	-92.2	LI	SP	SL	SL	LI	SP
	Utilities	-6.6	-7.4	9.1	-17.3	32.7	-84.2	-70.6	-46.0	41.9	-32.8	SL	-32.9	16.0	3.9	LS	-36.0
	Financials	-	-	-	-	-	-	-	-	-20.2	-2.5	116.0	38.8	-26.6	19.2	8,108.7	48.8

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 September 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			
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY20	FY21E	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
		x	x	x	x	x	x	x	x	%	%	%		%	%	%
Industrial groups	Russell/Nomura Large Cap	16.5	14.8	14.2	-	-	-	1.50	1.45	2.13	2.24	2.42	7.16	9.0	9.5	9.4
	Russell/Nomura Large Cap (ex loss-making cos)	15.9	14.4	13.8	-	-	-	1.64	1.43	2.17	2.30	2.49	9.40	9.3	9.5	9.4
	Russell/Nomura Large Cap (ex financials)	17.5	15.7	15.1	9.6	9.0	8.7	1.72	1.65	1.99	2.09	2.26	7.53	9.7	10.2	10.0
	Manufacturing	18.0	16.5	15.4	10.5	9.8	9.4	1.89	1.79	1.90	2.06	2.20	7.01	10.3	10.5	10.5
	Basic materials	11.3	11.7	11.2	5.7	5.7	5.6	1.19	1.12	2.92	2.89	2.97	3.63	10.3	9.3	9.1
	Processing	17.8	15.9	14.6	10.8	9.9	9.3	1.90	1.80	1.71	1.92	2.12	7.60	10.5	10.9	11.0
	Nonmanufacturing	14.7	13.0	12.7	-	-	-	1.16	1.15	2.45	2.50	2.74	7.30	7.9	8.6	8.3
	Nonmanufacturing (ex financials)	16.6	14.5	14.5	8.4	7.8	7.8	1.48	1.46	2.15	2.15	2.35	8.26	9.0	9.7	9.1
Broad sectors	Basic materials	11.3	11.7	11.2	5.7	5.7	5.6	1.19	1.12	2.92	2.89	2.97	3.63	10.3	9.3	9.1
	Machinery, autos	14.3	12.7	11.8	9.0	8.2	7.8	1.43	1.38	2.19	2.50	2.73	5.69	10.0	10.6	10.6
	Electronics	22.8	20.5	18.6	13.2	12.2	11.4	2.72	2.47	1.28	1.40	1.57	11.02	11.4	11.5	11.7
	Consumption, distribution	20.5	20.0	19.6	12.1	11.8	11.7	2.00	1.91	1.90	1.95	2.02	6.47	9.6	9.3	9.0
	Information	17.3	14.6	14.5	8.6	7.9	7.9	1.84	1.91	2.30	2.17	2.68	24.32	11.3	12.6	11.8
	Utilities, infrastructure	15.4	11.3	11.4	6.7	5.8	5.7	1.08	1.05	2.42	2.56	2.55	1.37	7.0	9.0	8.4
	Financials	9.7	8.8	8.1	-	-	-	0.58	0.58	3.86	4.15	4.52	5.60	6.0	6.4	6.7
Sectors	Chemicals	13.2	13.0	12.2	6.6	6.5	6.2	1.34	1.25	2.50	2.60	2.71	4.28	9.9	9.3	9.4
	Steel, nonferrous metals	6.6	7.6	8.0	3.4	3.6	3.7	0.74	0.72	5.07	4.41	4.33	1.69	11.4	9.1	8.2
	Machinery	22.9	20.6	19.4	14.4	13.2	12.6	2.12	2.16	1.49	1.72	1.84	6.06	9.6	10.1	10.1
	Automobiles	11.5	10.2	9.5	7.3	6.6	6.3	1.19	1.13	2.64	3.00	3.29	5.56	10.1	10.7	10.8
	Electrical machinery, precision equipment	22.8	20.5	18.6	13.2	12.2	11.4	2.72	2.47	1.28	1.40	1.57	11.02	11.4	11.5	11.7
	Pharmaceuticals, healthcare	27.1	24.0	22.4	16.5	15.1	14.4	2.57	2.47	1.83	1.89	1.94	8.35	9.3	10.0	10.2
	Food products	20.9	18.3	16.7	11.5	10.6	10.0	1.93	1.85	2.70	2.87	3.03	8.63	9.0	9.9	10.2
	Household goods	31.1	29.5	36.7	19.9	19.1	24.1	3.79	3.55	1.27	1.33	1.15	8.02	11.9	11.6	10.9
	Trading companies	6.9	7.8	8.0	4.4	4.8	4.8	0.99	0.93	4.04	4.02	4.07	6.05	14.4	11.4	10.4
	Retailing	28.8	25.0	23.4	14.1	13.0	12.3	2.84	2.77	1.25	1.29	1.37	5.84	9.9	10.7	10.6
	Services	37.7	35.6	35.8	20.6	19.9	20.0	1.73	1.70	1.04	1.05	1.24	3.96	4.6	4.7	4.5
	Software	25.1	25.7	25.3	21.1	21.5	21.2	4.27	4.08	2.52	1.83	2.95	19.49	16.9	15.5	14.7
	Media	17.6	19.9	28.1	11.4	12.3	15.0	1.11	1.76	1.69	1.69	2.11	-2.73	10.4	8.6	5.8
	Telecommunications	14.8	11.6	11.4	6.4	5.7	5.7	1.49	1.48	2.22	2.39	2.57	28.89	10.2	12.2	11.6
	Construction	10.9	9.2	9.0	8.9	7.7	7.5	0.87	0.88	3.25	3.63	3.80	10.42	8.2	9.3	9.0
	Housing, real estate	13.1	12.0	11.4	9.0	8.4	8.0	1.28	1.22	2.49	2.67	2.83	8.63	9.6	9.8	9.6
	Transportation	20.6	11.4	12.5	7.5	5.8	6.1	1.37	1.34	1.96	2.08	1.88	-9.47	6.6	11.3	9.5
	Utilities	14.3	10.8	9.8	2.8	2.6	2.5	0.52	0.51	3.31	3.31	3.31	5.60	3.6	4.6	5.0
	Financials	9.7	8.8	8.1	-	-	-	0.58	0.58	3.86	4.15	4.52	5.60	6.0	6.4	6.7
Russell/Nomura Small Cap		15.8	14.6	14.4	-	-	-	1.13	1.03	2.30	2.37	2.41	5.04	6.7	6.9	6.7
Russell/Nomura Small Cap (ex financials)		16.7	15.5	15.2	8.5	8.1	8.1	1.33	1.18	1.86	1.92	1.97	5.25	7.3	7.4	7.2

Note: As of 1 September 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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