

Outlook for FY21-22 corporate earnings

Quarterly Update

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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 12.3% y-y, operating profit growth at 56.4%, recurring profit growth at 32.3%, and after-tax profit growth at 34.0% (sales and operating profit figures exclude financial companies, same throughout this report). Excluding SoftBank Group [9984], which generated large profits in its investment fund operations in FY20, our analysts call for recurring profit growth of 49.2% and after-tax profit growth of 60.5% in FY21.

Overview of the corporate earnings outlook for FY22

Our analysts' forecasts put FY22 sales growth for Russell/Nomura Large Cap companies at 5.1% y-y, operating profit growth at 13.3%, recurring profit growth at 10.3%, and after-tax profit growth at 10.9%. The average annual recurring profit growth rate for the five years prior to the pandemic (FY13–18) was 4.7%. We forecast stronger profit growth than this in both FY21 and FY22. In terms of companies for which comparable recurring profit data is available for the past ten years, we expect recurring profits to be 11.9% higher than their previous peak (in FY18) in FY21, and 23.7% higher in FY22.

The process of earnings recovery from the COVID-19 pandemic has been accompanied by supply chain tightening in the form of semiconductor shortages and rising input costs, and concerns have also emerged that the Chinese economy might be peaking. We lower our FY21 recurring profit forecast for the automobile sector to reflect reduced output, and lower our FY22 recurring profit forecast for the steel & nonferrous metals sector to reflect rising input costs and falling steel prices.

However, supply constraints can also boost margins too. We raise our FY22 recurring profit forecast for the automobile sector on the prospect that supply shortages will enable it to rein in incentives. Within the chemicals sector, PVC spreads have benefited from curbs on output caused by hurricanes in the US and electricity restrictions in China. With Nomura analysts also now assuming a weaker yen than before, we raise our overall outlook for corporate earnings. Our analysts' recurring profit forecasts for FY21 and FY22 have been revised up 3.2% and 2.7% respectively since the last time we compiled analysts' forecasts on 1 September.

However, this represents slower momentum in upward revisions to recurring profit forecasts for FY21 and FY22 than the equivalent increases of 7.5% and 3.6% respectively between 1 June and 1 September. While this is partly a consequence of recurring profits already being so high in absolute terms, it also looks as though upward revisions to the earnings outlook may have lost steam. Future points to watch in terms of gauging upside scope for earnings will probably include: (1) supply chain developments; (2) fresh acceleration in external demand, especially in China; (3) new COVID variants and their impact in Japan and globally; and (4) corporate initiatives to boost margins.

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

Items	Category	No. of cos						Old (%)	
			FY18 Actual	FY19 Actual	FY20 Actual	FY21 E	FY22 E	FY21 E	FY22 E
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	310	6.5	-2.5	-7.5	12.3	5.1	11.8	3.3
	Manufacturing	173	3.0	-2.7	-8.0	15.0	7.0	15.1	3.7
	Basic materials	36	7.0	-2.0	-12.1	26.5	2.4	24.5	0.3
	Processing	79	1.7	-4.5	-7.7	14.0	9.5	15.2	5.1
	Nonmanufacturing (ex financials)	137	11.5	-2.3	-6.8	8.9	2.6	7.7	2.8
	Russell/Nomura Small Cap (ex financials)	1,139	4.6	0.3	-6.1	5.9	4.2	5.0	3.9
Operating profits (% y-y)	Russell/Nomura Large Cap (ex financials)	310	3.6	-23.7	-18.9	56.4	13.3	52.6	11.8
	Manufacturing	173	0.3	-23.2	-3.4	57.6	13.5	51.8	10.9
	Basic materials	36	0.1	-48.7	13.7	128.1	-6.5	98.5	-0.4
	Processing	79	0.2	-20.1	-8.6	54.8	20.5	53.8	13.6
	Nonmanufacturing (ex financials)	137	8.0	-24.3	-36.2	54.4	12.8	53.9	13.4
	Russell/Nomura Small Cap (ex financials)	1,139	-2.4	-6.0	-12.5	36.4	13.2	34.1	12.5
Recurring profits (% y-y)	RN Large	334	1.1	-20.5	4.5	32.3	10.3	28.3	10.9
	Russell/Nomura Large Cap (ex financials)	310	3.1	-22.3	5.6	34.7	10.4	30.6	10.9
	Manufacturing	173	-1.5	-27.2	7.6	51.3	12.6	46.6	9.7
	Basic materials	36	2.1	-52.0	13.7	137.7	-6.9	106.0	-0.8
	Processing	79	-2.6	-24.5	8.7	42.9	18.4	43.1	11.6
	Nonmanufacturing	161	3.7	-14.3	2.0	15.9	7.8	12.6	12.2
	Nonmanufacturing (ex financials)	137	9.7	-16.0	3.3	15.5	7.2	12.0	12.8
	RN Small	1,229	-1.8	-7.3	-5.9	35.6	8.6	30.7	8.6
	Russell/Nomura Small Cap (ex financials)	1,139	0.3	-9.5	-7.0	38.7	9.0	34.5	9.0
After-tax profits (% y-y)	RN Large	334	-4.5	-31.6	16.3	34.0	10.9	31.1	11.2
	Russell/Nomura Large Cap (ex financials)	310	-1.1	-35.6	18.3	37.1	11.2	34.1	11.4
	Manufacturing	173	-4.3	-40.3	16.4	55.2	12.1	51.5	9.3
	Basic materials	36	0.9	-82.6	73.7	248.6	-11.3	202.0	-2.9
	Processing	79	-5.9	-37.9	18.9	42.1	17.9	42.1	12.0
	Nonmanufacturing	161	-4.7	-22.2	16.2	15.9	9.5	13.4	13.3
	Nonmanufacturing (ex financials)	137	3.9	-28.8	20.7	15.8	9.9	13.5	14.6
	RN Small	1,229	-5.9	-12.0	2.1	58.5	5.9	50.3	7.7
	Russell/Nomura Small Cap (ex financials)	1,139	-3.4	-13.9	1.2	67.8	6.3	59.7	8.0

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

Source: Nomura

Fig. 2: Major assumptions

		[As of 18 October 2021]					[As of 15 July 2021]				
FY		Industrial production	Policy rate	WTI	Exchange rate (avg)		Industrial production	Policy rate	WTI	Exchange rate (avg)	
		2015 base year (% y-y)	(FY-end, %)	(\$/bbl)	(USD/JPY)	(EUR/JPY)	2015 base year (% y-y)	(FY-end, %)	(\$/bbl)	(USD/JPY)	(EUR/JPY)
FY	FY20	-9.5	-0.10	42.3	106.00	123.69	-9.8	-0.10	42.3	106.00	123.69
	FY21	9.3	-0.10	74.4	111.37	130.90	13.5	-0.10	69.4	109.10	129.72
	FY22	7.5	-0.10	74.1	113.00	131.00	6.4	-0.10	64.8	109.00	129.00
Half-yearly	FY20 H1	-16.6	-0.10	34.4	106.80	121.26	-16.7	-0.10	34.4	106.80	121.26
	FY20 H2	-2.3	-0.10	50.2	105.21	126.12	-2.8	-0.10	50.2	105.21	126.12
	FY21 H1	13.9	-0.10	68.3	109.75	130.80	17.3	-0.10	69.3	109.21	130.44
	FY21 H2	5.4	-0.10	80.5	113.00	131.00	10.2	-0.10	69.5	109.00	129.00
	FY22 H1	8.1	-0.10	76.3	113.00	131.00	8.1	-0.10	66.3	109.00	129.00
	FY22 H2	7.0	-0.10	72.0	113.00	131.00	4.9	-0.10	63.3	109.00	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 16 of 19 sectors and fall in 3.

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

Trading companies should benefit from rising prices for resources such as coking coal and crude oil, and earnings have also been solid in non-resource operations such as automotive and lifestyle-related business. Automakers have been recovering from the effects of the pandemic, and financing operations are improving thanks to rising used car prices and lower discounts. While automakers have had no choice but to reduce production because of semiconductor shortages and supply chain issues caused by the pandemic, we think production by the Japanese automakers will essentially return to normal in December. In the transportation sector, passenger numbers have started to recover as a result of the lifting of the state of emergency declaration and progress with the vaccination rollout. In the shipping subsector, containership volumes are up, particularly on North America routes, and rates are high. In the chemicals sector, the oil subsector should benefit from high crude oil prices, and PVC-related business is also doing well. Demand is robust in the US and India, and margins have improved rapidly as a result of the hit to production from Hurricane Ida in the US and restrictions on electric power in China.

Sectors expected to see declines in profits are telecommunications, utilities, and construction.

For telecoms, the main factor here is the dropping out of investment gains booked in FY20 at SoftBank Group. Excluding SoftBank Group we forecast profit growth for the sector overall. 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 construction, competition for major projects remains fierce, and building construction gross margins have been low because of lower margins at the time of order receipt since FY18 warrants attention.

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 automobiles, transportation, electrical machinery & precision instruments, and finance.

For the autos industry, we forecast a 13.8% y-y increase in auto production in Japan in FY22 as production normalizes. Japanese automakers have the advantage when it comes to semiconductor procurement, and we look for expansion in market share in major markets such as Europe, North America, and China in 2022 H1. US shipments are likely to hit an unprecedented 19.8mn vehicles in 2022, partly because of inventory stockpiling at dealers. In transportation we look for a continued recovery in passenger traffic. In the air transportation subsector, we expect a real recovery in international travel. For electrical machinery & precision instruments, we expect demand for semiconductors to remain strong, particularly for automotive and industrial applications, and the market for semiconductor production equipment also looks likely to keep growing in FY22. In the finance industry, we expect an increase in income from the sale of financial products and a rise in corporate fees and commissions, as well as a drop in credit costs on a pullback from precautionary reserve provisions and an upshift in borrower credit ratings.

Sectors expected to see profit declines are trading companies, steel & nonferrous metals, services, and media.

For trading companies, we expect profit declines in resource fields caused by factors such as a drop in prices for iron ore. In non-resource areas as well, we expect the boost from higher prices for a wide range of products caused by COVID-related supply shortages to drop out of the picture. In steel & nonferrous metals, we expect profit declines from deterioration in inventory valuation gains/losses. In services, we look for a decline in mail, and a slowdown in sea & ocean freight forwarding business with shipping rates stabilizing. 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.

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

FY21E				FY22E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
16 sectors				15 sectors			
Trading companies	169.1	21.8	23.6	Automobiles	28.7	39.1	44.1
Automobiles	54.8	20.4	22.0	Transportation	119.3	22.4	25.2
Transportation	SP	20.2	21.8	Electrical machinery, precision equipment	10.7	14.0	15.8
Chemicals	98.9	18.0	19.5	Financials	9.7	11.4	-
Electrical machinery, precision equipment	27.8	12.1	13.1	Pharmaceuticals, healthcare	21.1	8.7	9.8
Steel, nonferrous metals	474.4	10.0	10.8	Utilities	105.6	7.5	8.4
Machinery	59.8	7.5	8.1	Machinery	10.3	4.8	5.5
Financials	17.2	7.3	-	Retailing	13.8	4.2	4.8
Services	27.9	3.3	3.5	Food	12.3	3.4	3.9
Pharmaceuticals, healthcare	21.4	3.1	3.3	Housing, real estate	7.8	3.4	3.8
Media	SP	2.8	3.1	Household goods	14.9	2.0	2.3
Housing, real estate	18.0	2.8	3.0	Telecommunications	1.9	1.6	1.8
Retailing	22.7	2.4	2.6	Construction	18.1	1.6	1.8
Food	11.3	1.2	1.3	Chemicals	1.0	0.8	0.9
Household goods	26.2	1.2	1.3	Software	1.2	0.3	0.3
Software	1.9	0.2	0.2				
Decrease in profits (%)				Decrease in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
3 sectors				4 sectors			
Construction	-25.0	-1.2	-1.3	Media	-17.0	-0.9	-1.1
Utilities	-59.6	-4.4	-4.8	Services	-3.8	-1.3	-1.5
Telecommunications	-44.6	-28.7	-31.0	Steel, nonferrous metals	-30.4	-8.7	-9.8
				Trading companies	-17.4	-14.3	-16.1

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 14 of the 19 sectors and lowered them for the remaining 5. The revision to our average full-term assumption for USD/JPY from 109.10 to 111.37 contributed to upward revisions across sectors serving overseas demand.

The upward revisions (in value terms) were particularly large for sectors such as chemicals, trading companies, and telecommunications.

For the chemicals sector, a rise in the crude oil price assumption resulted in upward revisions in the oil subsector. PVC-related businesses have also been doing better than we had previously expected. Revisions to forecasts for trading companies reflected strong earnings through H1 and rising prices for resources such as thermal coal. In the telecommunications sector, we revised our forecast for earnings in SoftBank Group's investment businesses.

The downward revisions (in value terms) were particularly large for sectors such as transportation, autos, and utilities.

In the transportation sector, we reflected that the recovery in passenger numbers has been slower than expected. For autos, rising COVID-19 infection rates have sharply reduced production of semiconductor packages in Malaysia and wiring harnesses in Vietnam, creating a bottleneck for automobile output. For this reason we lowered our FY21 production forecast from 9.071mn vehicles to 8.356mn vehicles. In the utilities sector we revised our assumptions for gains/losses under the fuel cost adjustment system.

Overview of the corporate earnings outlook for FY22

Our analysts have raised their FY22 recurring profit forecasts for 14 of the 19 sectors and lowered them for the remaining 5. The revision to our average full-term assumption for USD/JPY from 109.00 to 113.00 shored up forecasts across sectors serving overseas demand.

The upward revisions (in value terms) were particularly large for sectors such as autos, chemicals, and electrical machinery & precision equipment.

In the autos sector, we expect growth in demand in the US, the largest export market, not only in the retail market but also for fleets (from large-lot customers), and as we also expect a boost to shipments from dealers replenishing inventories, we raised our assumption for Japanese automobile production in FY22 from 9.170mn vehicles to 9.511mn vehicles. With that said, given current production capacity, we do not expect automakers to be able to fully regain the lost ground from the previous production cuts in FY22. For the chemicals sector, as in FY21, a rise in the crude oil price assumption resulted in upward revisions in the oil subsector. In electrical machinery & precision equipment, we reflected strength in semiconductor demand and in the SPE market, as in FY21.

The downward revisions (in value terms) were particularly large for sectors such as telecommunications, transportation, and steel and nonferrous metals.

In the telecommunications sector, we revised our forecast for earnings in SoftBank Group's investment businesses. In the transportation sector, as in FY21, we reflected that the recovery in passenger numbers has been slower than expected. In steel and nonferrous metals, coking coal prices remain high and the prices of secondary inputs such as ferroalloys have increased sharply, but steel prices have fallen as a result of the slowdown in the real estate market in China, and we expect margins to deteriorate more than we had previously assumed.

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

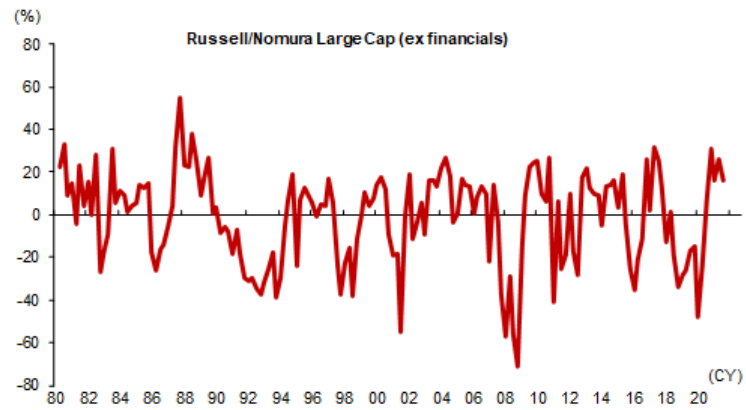
FY21E					FY22E				
[Upward revisions]	14 sectors		(¥bn)	(%)	[Upward revisions]	14 sectors		(¥bn)	(%)
	Actual	Old	Revision	Change		New	Old	Revision	Change
Chemicals	4,736	4,098	637.2	15.5	Automobiles	9,689	8,951	738.6	8.3
Trading companies	4,538	4,142	396.0	9.6	Chemicals	4,782	4,203	578.4	13.8
Telecommunications	4,654	4,292	361.5	8.4	Electrical machinery, precision equipment	8,052	7,752	299.8	3.9
Services	1,961	1,638	322.3	19.7	Services	1,886	1,722	164.8	9.6
Electrical machinery, precision equipment	7,276	7,017	259.2	3.7	Financials	7,139	7,019	119.5	1.7
Steel, nonferrous metals	1,578	1,373	205.0	14.9	Pharmaceuticals, healthcare	2,741	2,623	117.5	4.5
Financials	6,510	6,356	153.4	2.4	Machinery	2,876	2,768	107.7	3.9
Machinery	2,608	2,509	99.2	4.0	Trading companies	3,749	3,644	105.6	2.9
Housing, real estate	2,388	2,293	94.8	4.1	Software	1,246	1,176	70.7	6.0
Food	1,552	1,510	42.2	2.8	Housing, real estate	2,573	2,525	48.9	1.9
Pharmaceuticals, healthcare	2,262	2,222	40.4	1.8	Household goods	869	840	28.7	3.4
Software	1,232	1,197	34.1	2.8	Food	1,742	1,718	24.9	1.4
Media	303	276	27.4	9.9	Retailing	1,921	1,897	23.6	1.2
Retailing	1,688	1,667	20.9	1.3	Media	252	246	6.0	2.4
[Downward revisions]	5 sectors		(¥bn)	(%)	[Downward revisions]	5 sectors		(¥bn)	(%)
	Actual	Old	Revision	Change		New	Old	Revision	Change
Household goods	756	771	-15.3	-2.0	Utilities	802	805	-2.6	-0.3
Construction	487	550	-63.0	-11.4	Construction	576	654	-78.0	-11.9
Utilities	390	620	-230.3	-37.1	Steel, nonferrous metals	1,099	1,225	-126.0	-10.3
Automobiles	7,528	7,919	-390.9	-4.9	Transportation	2,273	2,590	-316.4	-12.2
Transportation	1,037	1,434	-397.2	-27.7	Telecommunications	4,744	5,177	-432.6	-8.4

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

Source: Nomura

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

(yy/m)	20/3	20/6	20/9	20/12	21/3	21/6	21/9	21/12
Russell/Nomura Large Cap	-15.5	-45.5	-25.5	7.6	29.3	16.2	25.7	17.1
Russell/Nomura Large Cap (ex financials)	-15.0	-48.0	-23.9	7.2	31.0	16.1	26.1	16.1
Manufacturing	-21.7	-57.7	-17.7	7.4	38.7	18.5	32.4	20.8
Basic materials	-40.5	-64.9	-29.7	18.9	52.8	61.1	36.1	47.2
Processing	-23.8	-63.1	-14.3	20.2	64.6	27.8	46.8	24.1
Nonmanufacturing (ex financials)	-6.1	-35.1	-32.1	6.9	21.2	13.1	18.2	10.2



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

		No. of cos	FY17	FY18	FY19	FY20	FY21 Old E	FY21 New E	FY22 Old E	FY22 New E
										(%)
Industrial groups	Russell/Nomura Large Cap (ex financials)	310	8.2	6.5	-2.5	-7.5	11.8	12.3	3.3	5.1
	Manufacturing	173	9.3	3.0	-2.7	-8.0	15.1	15.0	3.7	7.0
	Basic materials	36	17.1	7.0	-2.0	-12.1	24.5	26.5	0.3	2.4
	Processing	79	7.9	1.7	-4.5	-7.7	15.2	14.0	5.1	9.5
	Nonmanufacturing (ex financials)	137	6.7	11.5	-2.3	-6.8	7.7	8.9	2.8	2.6
Broad sectors	Basic materials	36	17.1	7.0	-2.0	-12.1	24.5	26.5	0.3	2.4
	Machinery, automobiles	40	9.0	2.2	-4.4	-10.4	18.4	15.9	6.6	13.6
	Electronics	39	6.0	0.8	-4.8	-3.0	10.4	11.3	2.8	3.2
	Consumer, distribution	103	6.7	15.5	-0.6	-4.4	9.7	11.3	1.3	1.1
	Information	30	6.3	3.7	-7.4	-0.6	3.4	5.6	2.8	2.9
	Utilities, infrastructure	62	6.0	3.8	0.2	-12.2	3.2	3.1	6.0	6.5
Sectors	Chemicals	30	18.0	8.0	-1.2	-12.4	22.8	25.1	0.3	3.0
	Steel, nonferrous metals	6	15.0	4.7	-3.9	-11.3	29.4	30.3	0.6	0.7
	Machinery	24	13.9	3.0	-3.6	-5.5	12.1	15.0	5.0	5.8
	Automobiles	16	7.7	2.0	-4.6	-11.8	20.2	16.1	7.0	15.8
	Electrical machinery, precision equipment	39	6.0	0.8	-4.8	-3.0	10.4	11.3	2.8	3.2
	Pharmaceuticals, healthcare	24	3.2	3.5	9.7	-2.1	4.5	6.5	2.5	3.2
	Food	20	6.7	2.5	0.7	-3.9	0.8	1.3	3.1	3.6
	Household goods	14	7.5	3.5	-0.8	-7.4	7.8	7.9	2.6	5.8
	Trading companies	8	13.1	45.0	-5.0	-5.8	18.1	19.6	-3.1	-4.0
	Retailing	19	5.1	3.1	2.5	-3.4	12.7	13.7	7.6	7.6
	Services	18	0.7	1.9	-2.5	-4.0	-1.8	2.2	1.9	0.5
	Software	15	20.8	9.5	7.5	9.2	3.9	2.7	1.7	3.3
	Media	3	5.3	6.4	0.8	-12.9	-16.0	14.0	4.9	6.5
	Telecommunications	12	4.7	2.7	-10.7	-0.6	5.1	5.6	2.8	2.5
	Construction	8	1.9	8.0	5.1	-9.8	6.8	6.8	3.7	3.4
	Housing, real estate	20	5.1	5.4	2.3	-4.3	6.7	7.2	4.8	4.3
	Transportation	24	5.8	-1.1	-2.2	-28.2	20.2	14.8	10.7	11.4
	Utilities	10	8.5	6.6	-0.9	-3.1	-15.5	-12.1	3.4	5.5

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 1 December 2021, previous estimates as of 1 September 2021.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

		No. of cos	FY17	FY18	FY19	FY20	FY21		FY22		(%)
							FY21 Old E	FY21 New E	FY22 Old E	FY22 New E	
Industrial groups	RN Large Cap	334	15.3	1.1	-20.5	4.5	28.3	32.3	10.9	10.3	
	Russell/Nomura Large Cap (ex financials)	310	17.5	3.1	-22.3	5.6	30.6	34.7	10.9	10.4	
	Manufacturing	173	21.6	-1.5	-27.2	7.6	46.6	51.3	9.7	12.6	
	Basic materials	36	43.6	2.1	-52.0	13.7	106.0	137.7	-0.8	-6.9	
	Processing	79	19.6	-2.6	-24.5	8.7	43.1	42.9	11.6	18.4	
	Nonmanufacturing	161	9.7	3.7	-14.3	2.0	12.6	15.9	12.2	7.8	
	Nonmanufacturing (ex financials)	137	12.2	9.7	-16.0	3.3	12.0	15.5	12.8	7.2	
Broad sectors	Basic materials	36	43.6	2.1	-52.0	13.7	106.0	137.7	-0.8	-6.9	
	Machinery, automobiles	40	16.5	-8.9	-23.9	-7.0	60.5	56.1	12.4	24.0	
	Electronics	39	26.1	9.3	-25.3	34.8	23.2	27.8	10.5	10.7	
	Consumer, distribution	103	14.8	2.8	-9.5	-12.0	41.4	50.9	4.1	1.2	
	Information	30	6.1	33.1	-35.2	157.0	-39.6	-35.1	14.4	0.9	
	Utilities, infrastructure	62	9.6	-2.5	-2.6	-68.8	140.7	111.4	34.2	44.7	
	Financials	24	4.4	-10.5	-9.1	-1.4	14.4	17.2	10.4	9.7	
Sectors	Chemicals	30	34.2	4.5	-34.2	-11.6	72.1	98.9	2.6	1.0	
	Steel, nonferrous metals	6	93.4	-7.3	SL	SP	399.8	474.4	-10.8	-30.4	
	Machinery	24	29.3	9.6	-30.0	-5.0	53.8	59.8	10.3	10.3	
	Automobiles	16	12.9	-14.6	-21.5	-7.7	62.8	54.8	13.0	28.7	
	Electrical machinery, precision equipment	39	26.1	9.3	-25.3	34.8	23.2	27.8	10.5	10.7	
	Pharmaceuticals, healthcare	24	5.9	-3.5	8.0	11.8	19.3	21.4	18.1	21.1	
	Food	20	4.8	-3.7	-15.6	0.6	8.3	11.3	13.8	12.3	
	Household goods	14	20.8	6.9	-7.5	-23.6	28.8	26.2	8.9	14.9	
	Trading companies	8	31.2	10.4	-27.9	-26.8	145.6	169.1	-12.0	-17.4	
	Retailing	19	12.4	3.3	4.1	-17.7	21.1	22.7	13.8	13.8	
	Services	18	10.9	0.0	1.7	-14.3	6.8	27.9	5.1	-3.8	
	Software	15	44.2	16.7	20.1	39.6	-0.9	1.9	-1.8	1.2	
	Media	3	9.6	4.1	-57.5	SL	SP	SP	-10.9	-17.0	
	Telecommunications	12	1.4	38.5	-41.4	207.6	-48.9	-44.6	20.6	1.9	
	Construction	8	9.8	-1.1	0.6	-13.4	-15.3	-25.0	18.8	18.1	
	Housing, real estate	20	9.9	-2.7	5.4	-10.8	13.3	18.0	10.1	7.8	
	Transportation	24	9.0	2.2	-17.4	SL	SP	SP	80.6	119.3	
	Utilities	10	10.2	-12.8	17.7	-15.3	-35.7	-59.6	29.7	105.6	
	Financials	24	4.4	-10.5	-9.1	-1.4	14.4	17.2	10.4	9.7	

Note: (1) Figures exclude listed consolidated subsidiaries. Latest estimates as of 1 December 2021, previous estimates as of 1 September 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)						
		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	51,886	53,483	57,531	59,010
	Russell/Nomura Large Cap (ex financials)	310	41,796	32,757	34,590	45,529	46,973	50,512	51,872
	Manufacturing	173	23,510	17,180	18,613	27,419	28,296	30,079	31,849
	Basic materials	36	4,963	2,453	2,721	5,471	6,313	5,428	5,880
	Processing	79	14,552	10,942	12,114	17,444	17,412	19,471	20,617
	Nonmanufacturing	161	24,652	21,362	21,560	24,467	25,187	27,452	27,161
	Nonmanufacturing (ex financials)	137	18,286	15,578	15,977	18,111	18,677	20,433	20,023
Broad sectors	Materials	36	4,963	2,453	2,721	5,471	6,313	5,428	5,880
	Machinery, autos	40	8,911	6,745	6,492	10,427	10,136	11,719	12,565
	Electronics	39	5,641	4,197	5,622	7,017	7,276	7,752	8,052
	Consumer, distribution	103	10,312	9,397	8,260	11,951	12,757	12,443	12,908
	Information	30	5,753	3,728	9,589	5,765	6,188	6,598	6,242
	Utilities, infrastructure	62	6,216	6,236	1,906	4,898	4,302	6,572	6,224
	Financials	24	6,366	5,785	5,583	6,356	6,510	7,019	7,139
Sectors	Chemicals	30	4,036	2,758	2,425	4,098	4,736	4,203	4,782
	Steel, nonferrous metals	6	927	-305	296	1,373	1,578	1,225	1,099
	Machinery	24	2,539	1,781	1,670	2,509	2,608	2,768	2,876
	Autos	16	6,372	4,964	4,822	7,919	7,528	8,951	9,689
	Electrical machinery, precision equipment	39	5,641	4,197	5,622	7,017	7,276	7,752	8,052
	Pharmaceuticals, healthcare	24	1,540	1,632	1,810	2,222	2,262	2,623	2,741
	Food products	20	1,625	1,387	1,373	1,510	1,552	1,718	1,742
	Household goods	14	830	765	596	771	756	840	869
	Trading companies	8	3,148	2,271	1,663	4,142	4,538	3,644	3,749
	Retailing	19	1,497	1,612	1,310	1,667	1,688	1,897	1,921
	Services	18	1,672	1,731	1,509	1,638	1,961	1,722	1,886
	Software	15	620	813	1,172	1,197	1,232	1,176	1,246
	Media	3	364	154	-2	276	303	246	252
	Telecommunications	12	4,769	2,761	8,419	4,292	4,654	5,177	4,744
	Construction, engineering	8	696	734	636	550	487	654	576
	Housing, real estate	20	2,055	2,165	1,878	2,293	2,388	2,525	2,573
	Transportation	24	2,474	2,170	-1,573	1,434	1,037	2,590	2,273
Utilities	10	992	1,167	965	620	390	805	802	
Financials	24	6,366	5,785	5,583	6,356	6,510	7,019	7,139	

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 December 2021, previous estimates as of 1 September 2021.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY20 Q3–FY21 Q2)

		% y-y																
		Sales				Operating profits				Recurring profits				After-tax profits				
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Industrial groups	RN Large Cap	-	-	-	-	-	-	-	-	28.9	263.8	146.7	47.8	37.8	SP	159.3	50.8	
	Russell/Nomura Large Cap (ex financials)	-2.3	3.6	25.3	11.0	10.2	49.2	221.6	49.4	34.9	290.9	182.3	45.1	41.1	SP	200.4	48.2	
	Manufacturing	-1.2	5.6	35.5	11.2	37.1	141.8	382.7	55.9	49.6	227.3	302.9	64.3	58.2	1,629.7	591.7	72.1	
	Basic materials	-8.2	2.5	33.0	29.0	99.5	SP	958.9	268.2	88.5	SP	1,439.7	344.8	1,016.9	SP	SP	2,028.7	
	Processing	1.3	8.2	45.0	7.6	37.7	93.0	1,285.3	37.1	58.8	172.8	462.7	42.1	49.3	904.5	810.4	31.9	
	Nonmanufacturing	-	-	-	-	-	-	-	-	14.0	318.7	78.1	33.3	21.7	SP	60.7	31.8	
	Nonmanufacturing (ex financials)	-3.8	1.2	13.9	10.7	-19.8	-27.1	97.0	40.2	20.2	447.4	99.9	22.5	22.6	SP	66.7	19.2	
Broad sectors	Basic materials	-8.2	2.5	33.0	29.0	99.5	SP	958.9	268.2	88.5	SP	1,439.7	344.8	1,016.9	SP	SP	2,028.7	
	Machinery, automobiles	1.4	7.4	59.5	5.6	53.5	179.7	SP	32.2	50.0	274.7	SP	30.5	46.5	SP	SP	34.5	
	Electronics	1.2	9.5	26.9	10.6	19.5	32.4	142.9	43.1	74.3	88.8	61.6	58.8	53.7	138.1	74.4	29.2	
	Consumer, distribution	-2.9	6.6	18.8	13.5	-2.0	6.9	89.0	41.0	-3.9	47.6	102.7	51.5	-2.8	52.5	132.8	75.1	
	Information	3.9	-4.0	9.2	5.4	6.6	12.6	4.5	17.8	135.1	SP	27.2	-37.2	190.3	SP	-19.6	-66.5	
	Utilities, infrastructure	-7.8	-6.5	3.5	3.3	-50.5	-74.5	1,040.2	32.6	-41.4	-75.1	1,625.8	58.7	-43.8	LI	SP	102.7	
	Financials	-	-	-	-	-	-	-	-	-2.5	116.0	38.8	65.0	19.2	8,108.7	48.8	67.0	
Sectors	Chemicals	-8.5	3.3	32.7	27.7	-8.6	2,376.2	354.6	119.7	-13.5	3,802.4	432.2	156.2	11.5	SP	SP	225.4	
	Steel, nonferrous metals	-7.3	0.2	33.6	32.6	SP	SP	SP	SP	SP	SP	SP	SP	SP	SP	SP	SP	SP
	Machinery	-0.3	5.2	29.2	13.5	42.8	71.9	252.3	41.8	40.5	133.0	193.6	39.3	6.7	150.7	191.7	45.1	
	Automobiles	1.8	8.1	70.9	3.4	56.7	269.6	SP	28.8	52.7	382.1	SP	27.9	63.1	SP	SP	31.3	
	Electrical machinery, precision equipment	1.2	9.5	26.9	10.6	19.5	32.4	142.9	43.1	74.3	88.8	61.6	58.8	53.7	138.1	74.4	29.2	
	Pharmaceuticals, healthcare	-0.6	-2.2	10.1	7.4	15.2	29.8	30.1	35.8	11.3	71.0	33.1	43.0	18.2	45.5	34.5	64.9	
	Food	-3.4	-0.9	7.6	0.5	-11.2	33.4	25.6	1.9	-10.5	38.1	30.7	6.5	-11.4	43.5	27.1	16.9	
	Household goods	-1.2	2.6	20.1	5.0	-1.7	-9.3	95.4	-0.2	7.9	11.2	132.8	1.2	-1.4	-24.5	258.9	33.5	
	Trading companies	-5.5	19.2	36.4	27.4	-30.7	8.1	246.3	171.9	-29.9	SP	240.5	189.4	-31.7	SP	292.4	206.0	
	Retailing	-1.0	-1.1	9.1	9.9	17.9	-18.9	84.1	-10.1	12.4	-15.2	97.9	-7.7	16.4	-15.5	429.1	21.4	
	Services	-1.8	1.2	8.8	5.3	5.4	7.2	143.4	45.3	4.6	8.2	145.8	46.5	8.3	-49.6	207.0	52.5	
	Software	5.2	8.5	5.9	-4.1	30.7	13.6	7.2	-3.6	22.0	29.7	11.2	2.2	21.6	64.6	14.2	17.0	
	Media	-8.4	-2.0	24.6	33.4	SL	9.2	978.0	SP	LI	-8.9	886.0	128,821.2	LI	-54.7	SP	SP	
	Telecommunications	5.6	-6.3	8.8	5.5	13.0	12.7	-4.8	5.2	182.0	SP	26.4	-55.4	269.6	SP	-26.1	-87.2	
	Construction	-9.2	-8.0	4.7	3.1	-8.1	-19.9	-33.1	-39.4	-9.6	-18.5	-29.4	-36.0	-7.0	-11.9	-29.4	-32.7	
	Housing, real estate	11.1	-11.0	11.3	8.3	26.2	-14.6	41.6	26.7	26.8	-16.0	40.0	31.6	45.4	-15.9	54.4	32.5	
	Transportation	-21.9	-16.7	19.8	12.9	-99.9	LI	LS	LS	-92.2	LI	SP	SP	SL	LI	SP	SP	
	Utilities	-7.4	9.1	-17.3	-9.5	-84.2	-70.6	-46.0	-33.9	-32.8	SL	-32.9	-46.5	3.9	LS	-36.0	-37.8	
		Financials	-	-	-	-	-	-	-	-	-2.5	116.0	38.8	65.0	19.2	8,108.7	48.8	67.0

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 December 2021. (3) Excludes listed 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	15.8	14.2	13.5	-	-	-	1.47	1.42	2.21	2.34	2.56	7.2	9.2	9.6	9.6
Russell/Nomura Large Cap (ex loss-making cos)	14.9	13.7	13.0	-	-	-	1.59	1.42	2.26	2.42	2.66	9.4	9.8	9.7	9.6
Russell/Nomura Large Cap (ex financials)	16.7	15.0	14.3	9.3	8.7	8.3	1.68	1.61	2.04	2.15	2.37	7.5	9.9	10.4	10.2
Manufacturing	17.5	15.6	14.6	10.3	9.5	9.0	1.88	1.77	1.93	2.11	2.31	7.0	10.5	10.9	10.9
Basic materials	9.5	10.7	10.3	5.1	5.4	5.3	1.14	1.05	3.23	3.07	3.18	3.6	11.7	9.5	9.3
Processing	18.2	15.4	14.4	11.1	9.8	9.3	1.95	1.84	1.66	1.90	2.12	7.6	10.5	11.4	11.4
Nonmanufacturing	13.9	12.7	12.1	-	-	-	1.11	1.10	2.60	2.66	2.94	7.3	8.1	8.5	8.4
Nonmanufacturing (ex financials)	15.6	14.2	13.8	8.0	7.5	7.4	1.42	1.39	2.23	2.22	2.47	8.3	9.2	9.5	9.3
Broad sectors															
Basic materials	9.5	10.7	10.3	5.1	5.4	5.3	1.14	1.05	3.23	3.07	3.18	3.6	11.7	9.5	9.3
Machinery, autos	14.5	11.8	11.4	9.1	7.9	7.6	1.43	1.37	2.17	2.56	2.81	5.7	9.8	11.2	10.8
Electronics	23.4	21.0	18.6	13.6	12.5	11.5	2.86	2.59	1.21	1.33	1.53	11.0	11.7	11.8	12.2
Consumption, distribution	18.4	18.0	17.5	11.0	10.8	10.5	1.89	1.81	2.00	2.11	2.27	6.5	10.1	9.7	9.5
Information	15.9	15.4	15.1	8.2	8.0	7.9	1.80	1.86	2.31	2.17	2.69	24.3	12.0	11.8	11.4
Utilities, infrastructure	16.6	11.0	10.1	6.5	5.4	5.1	0.99	0.96	2.65	2.69	2.80	1.4	5.9	8.5	8.7
Financials	9.2	8.5	7.8	-	-	-	0.56	0.56	4.32	4.68	5.08	5.6	6.1	6.5	6.8
Sectors															
Chemicals	11.4	11.6	10.9	6.1	6.0	5.8	1.31	1.21	2.67	2.85	2.96	4.3	11.2	10.1	10.0
Steel, nonferrous metals	4.8	7.4	7.8	2.7	3.3	3.4	0.65	0.59	6.56	4.40	4.45	1.7	13.3	7.9	7.1
Machinery	20.8	18.7	17.5	13.2	12.2	11.6	2.01	1.98	1.59	1.84	1.98	6.1	9.9	10.3	10.2
Automobiles	12.3	9.7	9.4	7.7	6.5	6.3	1.22	1.16	2.51	2.98	3.29	5.6	9.7	11.5	11.0
Electrical machinery, precision equipment	23.4	21.0	18.6	13.6	12.5	11.5	2.86	2.59	1.21	1.33	1.53	11.0	11.7	11.8	12.2
Pharmaceuticals, healthcare	26.3	21.1	20.1	15.6	13.5	13.0	2.37	2.30	1.98	2.06	2.11	8.3	8.9	10.6	10.6
Food products	19.0	16.8	15.2	10.6	9.8	9.2	1.82	1.74	2.96	3.33	3.57	8.6	9.3	10.1	10.5
Household goods	30.6	27.3	23.3	18.8	17.7	15.8	3.53	3.42	1.37	1.48	1.87	8.0	11.4	12.1	13.2
Trading companies	6.5	7.8	8.0	4.3	4.8	4.8	1.02	0.96	3.89	3.99	4.11	6.0	15.7	11.7	10.6
Retailing	25.1	20.6	20.3	12.3	10.7	10.4	2.56	2.45	1.37	1.45	1.57	5.8	10.2	11.4	10.7
Services	29.7	31.4	32.0	18.0	18.5	18.7	1.70	1.68	1.06	1.08	1.26	4.0	5.7	5.3	5.0
Software	24.0	24.3	24.7	20.3	20.4	20.7	4.21	3.98	2.58	1.90	3.01	19.5	17.3	15.9	14.6
Media	14.9	17.5	26.6	9.4	10.4	13.1	1.05	1.65	1.93	1.67	2.23	-2.7	11.6	9.1	5.7
Telecommunications	13.4	12.7	12.1	6.1	5.9	5.8	1.44	1.44	2.19	2.36	2.54	28.9	11.0	11.1	11.1
Construction	11.0	9.6	9.3	8.8	7.8	7.6	0.79	0.81	3.50	3.67	3.81	10.4	7.4	8.2	8.2
Housing, real estate	12.1	11.2	10.6	8.3	7.8	7.4	1.20	1.14	2.70	2.87	3.04	8.6	9.8	9.9	9.7
Transportation	26.4	11.8	10.4	7.4	5.5	5.2	1.24	1.20	2.19	2.11	2.18	-9.5	4.6	9.8	10.3
Utilities	21.2	9.5	8.7	2.7	2.3	2.2	0.46	0.45	3.62	3.62	3.62	5.6	2.1	4.7	5.0
Financials	9.2	8.5	7.8	-	-	-	0.56	0.56	4.32	4.68	5.08	5.6	6.1	6.5	6.8
Russell/Nomura Small Cap	14.1	13.3	13.0	-	-	-	1.09	0.96	2.18	2.24	2.28	5.0	7.0	7.1	6.9
Russell/Nomura Small Cap (ex financials)	15.0	14.1	13.9	7.8	7.6	7.5	1.26	1.11	2.06	2.11	2.15	5.2	7.6	7.7	7.4

Note: As of 1 December 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 30 September 2021.

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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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