

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 13.5% y-y, operating profit growth at 58.0%, recurring profit growth at 36.0%, and after-tax profit growth at 39.8% (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 look for recurring profit growth of 53.7% and after-tax profit growth of 67.5% in FY21.

Overview of the corporate earnings outlook for FY22

Our analysts' forecasts put FY22 sales growth for Russell/Nomura Large Cap companies at 6.6% y-y, operating profit growth at 15.0%, recurring profit growth at 10.9%, and after-tax profit growth at 10.5%. The average annual recurring profit growth rate for the five years prior to the pandemic (FY13-18) was 4.7%. We thus forecast stronger profit growth than this in both FY21 and FY22. Based on Russell/Nomura Large Cap constituent stocks for which comparable recurring profit data is available for the past 10 years, we expect recurring profits to be 14.7% higher than their previous peak (in FY18) in FY21, and 28.1% higher in FY22.

In FY21 Q3, sales were up 11.2% y-y. Operating profit growth tends to be higher than sales growth because of the effect of operating leverage. Based on coefficients of correlation in FY13-20, we estimate that sales growth of 11.2% should translate into operating profit growth of 30%. However, in the event operating profit growth came in shy of this figure, at 22.1%. We think that higher input costs dented operating profits. For example, at the seven Japanese automakers, input costs dented operating profits by ¥419.1bn and the operating margin by 2.5ppt.

In sectors where we revised down our recurring profit forecasts, our analysts referred to higher input costs in the context of the food and household goods sectors, among others. In January 2022, the corporate goods price index rose 8.6% y-y, while the overall CPI was up by only 0.5%. We think the effect of higher input costs is becoming particularly severe in businesses that cater to consumers, where progress in passing on costs has been relatively slow. We meanwhile made sizable upward revisions to our forecasts for sectors where global excess demand is likely to work to their advantage, such as trading companies, which are likely to benefit from rises in resource prices, and transportation, which is likely to catch tailwinds from elevated containership rates.

Our analysts' recurring profit forecasts for FY21 and FY22 have been revised up 2.8% and 3.9%, respectively, since the last time we compiled analysts' forecasts on 1 December. However, the impact of higher input costs still needs to be monitored. It takes around one or two quarters for changes in raw materials prices to affect corporate earnings, owing to the time lag between when products are sold and when raw materials used to manufacture them are procured. In view of this time lag, we expect a large impact from higher raw input costs in FY21 Q4 earnings.

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	FY21E E	FY22E E	FY21E E	FY22E E
Sales □ (% y-y)	Russell/Nomura Large Cap (ex financials)	310	6.5	-2.5	-7.5	13.5	6.6	12.3	5.2
	Manufacturing	173	3.0	-2.7	-8.0	15.0	9.4	15.0	7.2
	Basic materials	36	7.0	-2.0	-12.1	28.9	6.9	26.5	2.8
	Processing	79	1.7	-4.5	-7.7	13.1	11.5	14.0	9.4
	Nonmanufacturing (ex financials)	137	11.5	-2.3	-6.8	11.7	3.0	8.9	2.5
	Russell/Nomura Small Cap (ex financials)	1,135	4.6	0.3	-6.1	6.9	5.1	5.9	4.3
Operating profits □ (% y-y)	Russell/Nomura Large Cap (ex financials)	310	3.6	-23.7	-18.9	58.0	15.0	56.4	13.2
	Manufacturing	173	0.3	-23.2	-3.4	58.5	14.2	57.6	13.6
	Basic materials	36	0.1	-48.7	13.7	136.0	-6.5	128.1	-6.8
	Processing	79	0.2	-20.1	-8.6	54.9	21.3	54.8	20.5
	Nonmanufacturing (ex financials)	137	8.0	-24.3	-36.2	57.1	16.3	54.4	12.3
	Russell/Nomura Small Cap (ex financials)	1,135	-2.4	-6.0	-12.5	38.4	12.7	36.4	13.5
Recurring profits □ (% y-y)	RN Large	334	1.1	-20.5	4.5	36.0	10.9	32.3	9.9
	Russell/Nomura Large Cap (ex financials)	310	3.1	-22.3	5.6	37.3	12.2	34.7	9.9
	Manufacturing	173	-1.5	-27.2	7.6	52.9	13.2	51.3	12.7
	Basic materials	36	2.1	-52.0	13.7	147.4	-6.1	137.7	-7.2
	Processing	79	-2.6	-24.5	8.7	43.7	18.9	42.9	18.4
	Nonmanufacturing	161	3.7	-14.3	2.0	21.5	8.4	15.9	6.7
	Nonmanufacturing (ex financials)	137	9.7	-16.0	3.3	19.1	10.7	15.5	5.7
	RN Small	1,225	-1.8	-7.3	-5.9	39.4	9.4	35.6	10.5
After-tax profits □ (% y-y)	Russell/Nomura Small Cap (ex financials)	1,135	0.3	-9.5	-7.0	43.7	9.4	38.7	11.2
	RN Large	334	-4.5	-31.6	16.3	39.8	10.5	34.0	10.0
	Russell/Nomura Large Cap (ex financials)	310	-1.1	-35.6	18.3	42.1	11.9	37.1	10.2
	Manufacturing	173	-4.3	-40.3	16.4	59.7	10.9	55.2	12.1
	Basic materials	36	0.9	-82.6	73.7	270.1	-12.2	248.6	-12.3
	Processing	79	-5.9	-37.9	18.9	45.0	16.8	42.1	17.8
	Nonmanufacturing	161	-4.7	-22.2	16.2	22.6	9.9	15.9	7.6
	Nonmanufacturing (ex financials)	137	3.9	-28.8	20.7	21.2	13.4	15.8	7.3
	RN Small	1,225	-5.9	-12.0	2.1	64.0	9.5	58.5	9.5
	Russell/Nomura Small Cap (ex financials)	1,135	-3.4	-13.9	1.2	75.3	9.6	67.8	10.2

Note: Latest estimates as of 2 March 2022, previous estimates as of 1 December 2021.

Source: Nomura

Fig. 2: Major assumptions

[As of 20 January 2022]						[As of 18 October 2021]					
		Industrial production 2015 base year (% y-y)	Policy rate (FY-end, %)	WTI (\$/bbl)	Exchange rate (avg) (USD/JPY) (EUR/JPY)			Industrial production 2015 base year (% y-y)	Policy rate (FY-end, %)	WTI (\$/bbl)	Exchange rate (avg) (USD/JPY) (EUR/JPY)
FY	FY20	-9.5	-0.10	42.3	106.00 123.69			-9.5	-0.10	42.3	106.00 123.69
	FY21	6.0	-0.10	75.1	111.53 130.15			9.3	-0.10	74.4	111.37 130.90
	FY22	5.7	-0.10	79.9	113.00 129.00			7.5	-0.10	74.1	113.00 131.00
Half-yearly	FY20 H1	-16.6	-0.10	34.4	106.80 121.26			-16.6	-0.10	34.4	106.80 121.26
	FY20 H2	-2.3	-0.10	50.2	105.21 126.12			-2.3	-0.10	50.2	105.21 126.12
	FY21 H1	12.4	-0.10	68.3	109.75 130.80			13.9	-0.10	68.3	109.75 130.80
	FY21 H2	0.5	-0.10	81.8	113.32 129.49			5.4	-0.10	80.5	113.00 131.00
	FY22 H1	4.2	-0.10	82.5	113.00 129.00			8.1	-0.10	76.3	113.00 131.00
	FY22 H2	7.3	-0.10	77.3	113.00 129.00			7.0	-0.10	72.0	113.00 131.00

Note: WTI is the term-average WTI crude oil futures price. The above assumptions are not Nomura forecasts but the assumptions on which Nomura analysts base their earnings forecasts.

Source: Nomura

Contributions to recurring profit growth by sector

Overview of the corporate earnings outlook for FY21

For FY21, our analysts expect recurring profits to increase in 16 of 19 sectors and fall in three.

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

Trading companies continue to benefit from favorable business conditions for both resource and non-resource operations. In resource fields, prices of crude oil, iron ore, and coking coal have continued to rise. In non-resource fields, supply shortages have persisted in a wide range of areas because of the pandemic, and for trading companies fulfilling the role of intermediate distributors, the environment is still conducive to increasing trade margins. In the transportation sector, passenger numbers are recovering, and the shipping subsector has been performing well. Containership volumes are up, particularly on North America routes, and rates remain high. In the automobiles sector, auto sales showed a recovery from the effects of the pandemic, mainly in H1. While the sector is facing stiff headwinds from production cuts and higher input costs owing to supply chain issues, we think these factors will be offset by price increases on reduced incentives in the US, cost-cutting in advertising and elsewhere, and a boost from the weak yen. In the chemicals sector, we forecast profit growth at a broad range of companies as economic activity is resumed. We expect substantial profit growth for the oil subsector owing to the high level of crude oil prices, and strong showings for PVC-related operations.

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

For telecommunications, we expect profits to decline owing to investment gains booked in FY20 at SoftBank Group dropping out of the picture. 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. A rise in electric power procurement costs, due to higher prices on the Japan Electric Power Exchange (JEPX), is also weighing on earnings. In construction, competition to win orders for major projects remains fierce, and building construction gross margins have been low because of a decline in margins at the time of order receipt since FY18.

Overview of the corporate earnings outlook for FY22

For FY22, our analysts expect recurring profits to increase in 14 out of 19 sectors and fall in five.

Sectors expected to make large positive contributions to overall profits include automobiles, transportation, electrical machinery & precision equipment, and utilities.

In the automobiles sector, we expect semiconductor shortages to gradually resolve themselves, and envision a return to full capacity utilization from Oct-Dec 2022. Amid ongoing global auto supply shortages through Oct-Dec, we expect sector companies to rein in discounting, enabling them to overcome higher input costs and achieve substantial profit growth. In the transportation sector, we expect passenger numbers to recover as the pandemic is contained and international passenger flights are increasingly resumed from FY22 H2. In the electrical machinery & precision equipment sector, business conditions for semiconductor production equipment (SPE) are favorable, and growth in the SPE market will likely continue in 2022. Auto production has been falling owing to the semiconductor shortage, but electrification-related semiconductor demand is strong, and we expect this to continue. For utilities, we expect losses related to the fuel cost adjustment system to drop out of the picture.

Sectors expected to make large negative contributions to overall profits include trading companies, steel & nonferrous metals, and services.

For trading companies, we expect a correction in prices of commodities such as iron ore, on an expected easing in the supply bottlenecks caused by the pandemic. In non-resource fields too, we expect profits to fall versus a high comparison base owing to the improvement in sales margins in FY21 due to supply shortages. For steel, the main reason is the dropout of one-time gains recorded in FY21 because of inventory valuation gains at steel operations and gains on the sale of copper mines. In services, we look for a decline in mail, and a slowdown in ocean freight forwarding business as sea shipping rates stabilize.

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

FY21E				FY22E			
Increase in profits (%)				Increase in profits (%)			
16 sectors	Growth	Contribution	Contribution (ex financials)	14 sectors	Growth	Contribution	Contribution (ex financials)
Trading companies	202.5	23.4	26.3	Automobiles	29.1	36.7	37.7
Transportation	SP	18.8	21.0	Transportation	98.6	27.1	27.9
Automobiles	54.6	18.2	20.4	Electrical machinery, precision equipment	11.7	14.5	14.9
Chemicals	107.6	17.6	19.7	Utilities	495.4	11.8	12.1
Electrical machinery, precision equipment	30.2	11.8	13.2	Pharmaceuticals, healthcare	23.5	8.4	8.6
Financials	28.4	10.8	-	Machinery	10.1	4.4	4.6
Steel, nonferrous metals	492.7	9.3	10.4	Retailing	14.0	3.7	3.8
Machinery	58.2	6.5	7.3	Food	14.4	3.4	3.5
Services	30.0	3.2	3.5	Housing, real estate	8.3	3.4	3.5
Housing, real estate	20.7	2.9	3.2	Financials	2.3	2.7	-
Media	SP	2.7	3.0	Construction	23.3	1.5	1.6
Pharmaceuticals, healthcare	20.5	2.6	2.9	Household goods	11.6	1.4	1.5
Retailing	22.2	2.1	2.3	Chemicals	0.2	0.2	0.2
Household goods	25.2	1.0	1.2	Software	0.5	0.1	0.1
Software	11.0	0.9	1.0				
Food	8.9	0.9	1.0				
Decrease in profits (%)				Decrease in profits (%)			
3 sectors	Growth	Contribution	Contribution (ex financials)	5 sectors	Growth	Contribution	Contribution (ex financials)
Construction	-24.1	-1.1	-1.2	Media	-19.3	-1.0	-1.1
Utilities	-77.1	-5.1	-5.7	Telecommunications	-1.5	-1.2	-1.2
Telecommunications	-45.9	-26.5	-29.7	Services	-3.7	-1.3	-1.3
				Steel, nonferrous metals	-25.6	-6.7	-6.9
				Trading companies	-10.6	-9.2	-9.4

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

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 11 of the 19 sectors and lowered them for the remaining eight. The upward revisions (in value terms) were particularly large for sectors such as financials, trading companies, chemicals, and electrical machinery & precision equipment.

In the financials sector, we revised our assumption for credit costs. For the trading companies sector, we factored in strong earnings through Q3 and higher prices of commodities such as coking coal. In the chemicals sector, we raised our assumptions for inventory effects from higher crude oil prices at oil companies. We also factored in strong PVC margins owing to issues at rival US plant facilities and the buoyant housing market. For electrical machinery & precision instruments, gains on the sale of business operations accounted for around half of the upward revision. Even without this factor, sales of semiconductors and electronic parts have been buoyant, and SPE market conditions have improved further.

The downward revisions (in value terms) were particularly large for sectors such as utilities, telecommunications, food, and machinery.

For utilities, we factored in increased losses related to the fuel cost adjustment system, and a rise in electric power procurement costs due to higher prices on the Japan Electric Power Exchange (JEPX). For telecommunications, our downward revision reflected impairment losses on equity-method investments booked in Q3. For the food sector, impairment losses were a major factor, although we also reflected higher input costs and fiercer competition for some products. For machinery, we factored in higher-than-expected raw material and distribution costs.

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 five.

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

For trading companies we factored in higher prices of commodities such as crude oil, iron ore, and coking coal. For transportation, we factored in elevated containership rates because of ongoing disruption to ports on the West Coast of the US, and continued high levels of air cargo shipments because of delays to shipping. For electrical machinery & precision equipment, we factored in strong business conditions, as with our FY21 forecasts. For chemicals, we assume high sales prices in the oil subsector after raising our crude oil price assumption.

The downward revisions (in value terms) were particularly large for sectors such as telecommunications, machinery, and household goods.

For telecommunications, we assume that restructuring costs at less profitable businesses will be higher than our previous estimates. In machinery, we factor in a negative impact from higher costs, including distribution and raw materials costs. For household goods, we now take a more cautious view on the outlook for cosmetics demand because of the spread of the Omicron variant, and also reflect the impact of higher raw materials costs.

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

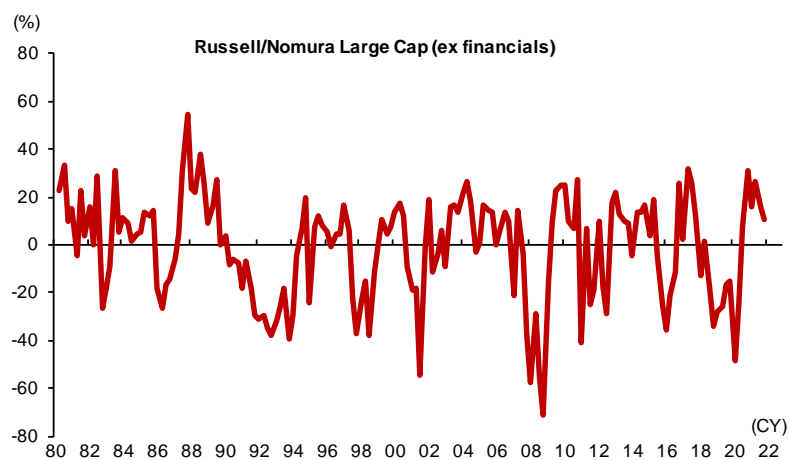
FY21E					FY22E				
11 sectors					14 sectors				
[Upward revisions]	Actual	Old	Revision	(%)	[Upward revisions]	New	Old	Revision	(%)
Financials	7,130	6,510	620.4	9.5	Trading companies	4,560	3,749	811.2	21.6
Trading companies	5,101	4,538	563.1	12.4	Transportation	3,227	2,446	781.0	31.9
Chemicals	4,944	4,736	208.5	4.4	Electrical machinery, precision equipment	8,194	7,977	216.9	2.7
Electrical machinery, precision equipment	7,413	7,276	136.9	1.9	Chemicals	4,718	4,534	184.2	4.1
Software	1,341	1,232	109.2	8.9	Financials	7,229	7,082	146.7	2.1
Transportation	1,131	1,037	94.8	9.1	Steel, nonferrous metals	1,145	1,015	130.0	12.8
Housing, real estate	2,442	2,388	53.7	2.2	Utilities	834	715	119.8	16.8
Steel, nonferrous metals	1,628	1,578	50.2	3.2	Software	1,262	1,156	106.4	9.2
Services	1,994	1,961	33.7	1.7	Housing, real estate	2,587	2,514	73.5	2.9
Media	321	303	17.8	5.9	Services	1,924	1,896	27.7	1.5
Construction	493	487	5.5	1.1	Pharmaceuticals, healthcare	2,605	2,590	15.3	0.6
[Downward revisions]					Construction	482	471	11.0	2.3
8 sectors					Retailing	1,763	1,755	7.6	0.4
Actual					Media	259	252	7.4	2.9
Household goods	750	756	-5.9	-0.8	[Downward revisions]				
Retailing	1,681	1,688	-7.0	-0.4	5 sectors				
Automobiles	7,520	7,528	-7.7	-0.1	New				
Pharmaceuticals, healthcare	2,245	2,262	-17.1	-0.8	Food	1,595	1,598	-3.3	-0.2
Machinery	2,579	2,608	-28.6	-1.1	Automobiles	9,601	9,608	-7.2	-0.1
Food	1,519	1,552	-33.3	-2.1	Household goods	818	850	-31.7	-3.7
Telecommunications	4,543	4,654	-110.5	-2.4	Machinery	2,866	2,912	-46.1	-1.6
Utilities	221	390	-169.1	-43.3	Telecommunications	4,442	4,713	-271.2	-5.8

Note: Latest estimates as of 2 March 2022, previous estimates as of 1 December 2021.

Source: Nomura

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

	(yy/m)	20/6	20/9	20/12	21/3	21/6	21/9	21/12	22/3
Russell/Nomura Large Cap		-45.5	-25.5	7.6	29.3	16.2	25.7	17.1	11.5
Russell/Nomura Large Cap (ex financials)		-48.0	-23.9	7.2	31.0	16.1	26.1	16.1	10.2
Manufacturing		-57.7	-17.7	7.4	38.7	18.5	32.4	20.8	6.2
Basic materials		-64.9	-29.7	18.9	52.8	61.1	36.1	47.2	48.3
Processing		-63.1	-14.3	20.2	64.6	27.8	46.8	24.1	2.7
Nonmanufacturing (ex financials)		-35.1	-32.1	6.9	21.2	13.1	18.2	10.2	15.0



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	FY18	FY19	FY20	FY21 Old E	FY21 New E	FY22 Old E	FY22 New E	
Industrial groups	Russell/Nomura Large Cap (ex financials)	310	6.5	-2.5	-7.5	12.3	13.5	5.2	6.6	
	Manufacturing	173	3.0	-2.7	-8.0	15.0	15.0	7.2	9.4	
	Basic materials	36	7.0	-2.0	-12.1	26.5	28.9	2.8	6.9	
	Processing	79	1.7	-4.5	-7.7	14.0	13.1	9.4	11.5	
	Nonmanufacturing (ex financials)	137	11.5	-2.3	-6.8	8.9	11.7	2.5	3.0	
Broad sectors	Basic materials	36	7.0	-2.0	-12.1	26.5	28.9	2.8	6.9	
	Machinery, automobiles	40	2.2	-4.4	-10.4	15.9	13.7	13.4	16.2	
	Electronics	39	0.8	-4.8	-3.0	11.3	12.2	3.1	4.3	
	Consumer, distribution	103	15.5	-0.6	-4.4	11.3	14.5	0.9	1.4	
	Information	30	3.7	-7.4	-0.6	5.6	6.0	2.9	2.8	
	Utilities, infrastructure	62	3.8	0.2	-12.2	3.1	4.8	6.3	7.0	
Sectors	Chemicals	30	8.0	-1.2	-12.4	25.1	28.6	3.0	6.1	
	Steel, nonferrous metals	6	4.7	-3.9	-11.3	30.3	29.6	2.4	9.4	
	Machinery	24	3.0	-3.6	-5.5	15.0	16.0	5.2	6.7	
	Automobiles	16	2.0	-4.6	-11.8	16.1	13.1	15.9	19.2	
	Electrical machinery, precision equipment	39	0.8	-4.8	-3.0	11.3	12.2	3.1	4.3	
	Pharmaceuticals, healthcare	24	3.5	9.7	-2.1	6.5	6.9	3.3	3.8	
	Food	20	2.5	0.7	-3.9	1.3	1.9	3.6	3.2	
	Household goods	14	3.5	-0.8	-7.4	7.9	8.4	5.7	4.6	
	Trading companies	8	45.0	-5.0	-5.8	19.6	27.6	-4.0	-2.5	
	Retailing	19	3.1	2.5	-3.4	13.7	14.1	7.9	7.9	
	Services	18	1.9	-2.5	-4.0	2.2	2.4	0.5	0.5	
	Software	15	9.5	7.5	9.2	2.7	3.7	3.6	2.1	
	Media	3	6.4	0.8	-12.9	14.0	20.9	6.5	7.7	
	Telecommunications	12	2.7	-10.7	-0.6	5.6	5.4	2.5	2.5	
	Construction	8	8.0	5.1	-9.8	6.8	6.7	3.7	4.6	
	Housing, real estate	20	5.4	2.3	-4.3	7.2	7.6	4.3	4.6	
	Transportation	24	-1.1	-2.2	-28.2	14.8	15.8	10.7	11.0	
	Utilities	10	6.6	-0.9	-3.1	-12.1	-7.7	5.1	6.9	

Note: (1) Figures exclude listed consolidated subsidiaries. (2) Latest estimates as of 2 March 2022; previous estimates as of 1 December 2021.

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector

										(%)
		No. of cos	FY18	FY19	FY20	FY21 Old E	FY21 New E	FY22 Old E	FY22 New E	
Industrial groups	RN Large Cap	334	1.1	-20.5	4.5	32.3	36.0	9.9	10.9	
	Russell/Nomura Large Cap (ex financials)	310	3.1	-22.3	5.6	34.7	37.3	9.9	12.2	
	Manufacturing	173	-1.5	-27.2	7.6	51.3	52.9	12.7	13.2	
	Basic materials	36	2.1	-52.0	13.7	137.7	147.4	-7.2	-6.1	
	Processing	79	-2.6	-24.5	8.7	42.9	43.7	18.4	18.9	
	Nonmanufacturing	161	3.7	-14.3	2.0	15.9	21.5	6.7	8.4	
	Nonmanufacturing (ex financials)	137	9.7	-16.0	3.3	15.5	19.1	5.7	10.7	
Broad sectors	Basic materials	36	2.1	-52.0	13.7	137.7	147.4	-7.2	-6.1	
	Machinery, automobiles	40	-8.9	-23.9	-7.0	56.1	55.5	23.8	24.2	
	Electronics	39	9.3	-25.3	34.8	27.8	30.2	10.7	11.7	
	Consumer, distribution	103	2.8	-9.5	-12.0	50.9	57.2	0.8	3.0	
	Information	30	33.1	-35.2	157.0	-35.1	-35.0	0.8	-2.0	
	Utilities, infrastructure	62	-2.5	-2.6	-68.8	111.4	110.7	37.2	56.9	
	Financials	24	-10.5	-9.1	-1.4	17.2	28.4	9.7	2.3	
Sectors	Chemicals	30	4.5	-34.2	-11.6	98.9	107.6	1.1	0.2	
	Steel, nonferrous metals	6	-7.3	SL	SP	474.4	492.7	-32.1	-25.6	
	Machinery	24	9.6	-30.0	-5.0	59.8	58.2	9.9	10.1	
	Automobiles	16	-14.6	-21.5	-7.7	54.8	54.6	28.8	29.1	
	Electrical machinery, precision equipment	39	9.3	-25.3	34.8	27.8	30.2	10.7	11.7	
	Pharmaceuticals, healthcare	24	-3.5	8.0	11.8	21.4	20.5	21.9	23.5	
	Food	20	-3.7	-15.6	0.6	11.3	8.9	12.0	14.4	
	Household goods	14	6.9	-7.5	-23.6	26.2	25.2	14.9	11.6	
	Trading companies	8	10.4	-27.9	-26.8	169.1	202.5	-17.4	-10.6	
	Retailing	19	3.3	4.1	-17.7	22.7	22.2	13.2	14.0	
	Services	18	0.0	1.7	-14.3	27.9	30.0	-3.4	-3.7	
	Software	15	16.7	20.1	39.6	1.9	11.0	1.3	0.5	
	Media	3	4.1	-57.5	SL	SP	SP	-17.0	-19.3	
	Telecommunications	12	38.5	-41.4	207.6	-44.6	-45.9	1.9	-1.5	
	Construction	8	-1.1	0.6	-13.4	-25.0	-24.1	22.2	23.3	
	Housing, real estate	20	-2.7	5.4	-10.8	18.0	20.7	7.7	8.3	
	Transportation	24	2.2	-17.4	SL	SP	SP	72.7	98.6	
	Utilities	10	-12.8	17.7	-15.3	-59.6	-77.1	108.0	495.4	
	Financials	24	-10.5	-9.1	-1.4	17.2	28.4	9.7	2.3	

Note: (1) SP = switch to profits, SL = switch to losses. LS = losses shrinking. (2) Figures exclude listed consolidated subsidiaries. (3) Latest estimates as of 2 March 2022; previous estimates as of 1 December 2021.

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	53,483	54,997	57,833	60,112
	Russell/Nomura Large Cap (ex financials)	310	41,796	32,757	34,590	46,973	47,867	50,750	52,883
	Manufacturing	173	23,510	17,180	18,613	28,296	28,599	31,084	31,543
	Basic materials	36	4,963	2,453	2,721	6,313	6,572	5,549	5,863
	Processing	79	14,552	10,942	12,114	17,412	17,513	20,497	20,661
	Nonmanufacturing	161	24,652	21,362	21,560	25,187	26,399	26,748	28,569
	Nonmanufacturing (ex financials)	137	18,286	15,578	15,977	18,677	19,268	19,666	21,340
Broad sectors	Materials	36	4,963	2,453	2,721	6,313	6,572	5,549	5,863
	Machinery, autos	40	8,911	6,745	6,492	10,136	10,099	12,520	12,467
	Electronics	39	5,641	4,197	5,622	7,276	7,413	7,977	8,194
	Consumer, distribution	103	10,312	9,397	8,260	12,757	13,291	12,439	13,265
	Information	30	5,753	3,728	9,589	6,188	6,205	6,120	5,963
	Utilities, infrastructure	62	6,216	6,236	1,906	4,302	4,287	6,145	7,130
	Financials	24	6,366	5,785	5,583	6,510	7,130	7,082	7,229
Sectors	Chemicals	30	4,036	2,758	2,425	4,736	4,944	4,534	4,718
	Steel, nonferrous metals	6	927	-305	296	1,578	1,628	1,015	1,145
	Machinery	24	2,539	1,781	1,670	2,608	2,579	2,912	2,866
	Autos	16	6,372	4,964	4,822	7,528	7,520	9,608	9,601
	Electrical machinery, precision equipment	39	5,641	4,197	5,622	7,276	7,413	7,977	8,194
	Pharmaceuticals, healthcare	24	1,540	1,632	1,810	2,262	2,245	2,590	2,605
	Food products	20	1,625	1,387	1,373	1,552	1,519	1,598	1,595
	Household goods	14	830	765	596	756	750	850	818
	Trading companies	8	3,148	2,271	1,663	4,538	5,101	3,749	4,560
	Retailing	19	1,497	1,612	1,310	1,688	1,681	1,755	1,763
	Services	18	1,672	1,731	1,509	1,961	1,994	1,896	1,924
	Software	15	620	813	1,172	1,232	1,341	1,156	1,262
	Media	3	364	154	-2	303	321	252	259
	Telecommunications	12	4,769	2,761	8,419	4,654	4,543	4,713	4,442
	Construction, engineering	8	696	734	636	487	493	471	482
	Housing, real estate	20	2,055	2,165	1,878	2,388	2,442	2,514	2,587
	Transportation	24	2,474	2,170	-1,573	1,037	1,131	2,446	3,227
	Utilities	10	992	1,167	965	390	221	715	834
	Financials	24	6,366	5,785	5,583	6,510	7,130	7,082	7,229

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 2 March 2022, previous estimates as of 1 December 2021.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY20 Q4–FY21 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	-	-	-	-	-	-	-	-	263.8	146.7	47.8	10.4	SP	159.3	50.8	17.7
	Russell/Nomura Large Cap (ex financials)	3.6	25.3	11.0	11.2	49.2	221.7	49.4	22.1	290.9	182.3	45.1	8.6	SP	200.4	48.2	15.1
	Manufacturing	5.6	35.5	11.2	9.1	141.8	382.7	55.9	13.9	227.3	302.9	64.3	16.8	1,629.7	591.7	72.1	15.8
	Basic materials	2.5	33.0	29.0	28.7	SP	958.9	268.2	75.6	SP	1,439.7	344.8	85.0	SP	SP	2,028.7	83.7
	Processing	8.2	45.0	7.6	3.9	93.0	1,285.3	37.1	4.3	172.8	462.7	42.1	7.5	904.5	810.4	31.9	6.8
	Nonmanufacturing	-	-	-	-	-	-	-	-	318.7	78.1	33.3	4.4	SP	60.7	31.8	19.6
Broad sectors	Nonmanufacturing (ex financials)	1.2	13.9	10.7	14.1	-27.1	97.0	40.2	37.3	447.4	100.0	22.5	-1.3	SP	66.7	19.2	14.3
	Basic materials	2.5	33.0	29.0	28.7	SP	958.9	268.2	75.6	SP	1,439.7	344.8	85.0	SP	SP	2,028.7	83.7
	Machinery, autos	7.4	59.5	5.6	0.1	179.7	SP	32.2	-8.0	274.7	SP	30.5	-0.8	SP	SP	34.5	-7.2
	Electronics	9.5	26.9	10.6	10.1	32.4	142.9	43.1	21.7	88.8	61.6	58.8	20.7	138.1	74.4	29.2	28.1
	Consumption, distribution	6.6	18.8	13.5	16.2	6.9	89.1	41.0	22.7	47.6	102.7	51.5	26.2	52.5	132.9	75.1	35.6
	Information	-4.0	9.2	5.4	4.2	12.6	4.5	17.8	21.9	SP	27.2	-37.2	-49.1	SP	-19.6	-66.5	-45.2
Sectors	Utilities, infrastructure	-6.5	3.5	3.3	9.1	-74.5	1,040.2	32.6	39.4	-75.1	1,625.8	58.7	60.2	LI	SP	102.7	94.3
	Financials	-	-	-	-	-	-	-	-	116.0	38.8	65.0	23.1	8,108.7	48.8	67.0	35.1
	Chemicals	3.3	32.7	27.7	27.3	2,376.2	354.6	119.7	62.6	3,802.4	432.2	156.2	74.2	SP	SP	225.4	79.3
	Steel, nonferrous metals	0.2	33.6	32.6	32.8	SP	SP	SP	118.4	SP	SP	SP	119.2	SP	SP	SP	93.2
	Machinery	5.2	29.2	13.5	16.0	71.9	252.3	41.8	20.0	133.0	193.6	39.3	22.5	150.7	191.7	45.1	17.6
	Automobiles	8.1	70.9	3.4	-3.8	269.6	SP	28.8	-15.3	382.1	SP	27.9	-6.5	SP	SP	31.3	-13.6
	Electrical machinery, precision equipment	9.5	26.9	10.6	10.1	32.4	142.9	43.1	21.7	88.8	61.6	58.8	20.7	138.1	74.4	29.2	28.1
	Pharmaceuticals, healthcare	-2.2	10.1	7.4	6.6	29.8	30.1	35.8	-5.6	71.0	33.1	43.0	-7.2	45.5	34.5	64.9	-6.5
	Food products	-0.9	7.6	0.5	3.9	33.4	25.6	1.9	-15.9	38.1	30.7	6.5	-14.8	43.5	27.1	16.9	-5.1
	Household goods	2.6	20.1	5.0	7.4	-9.3	95.4	-0.2	-10.3	11.2	132.8	1.2	-6.9	-24.5	258.9	33.5	-4.2
	Trading companies	19.2	36.4	27.4	32.7	8.1	246.3	171.9	173.3	SP	240.5	189.4	160.4	SP	292.4	206.0	183.1
	Retailing	-1.1	9.1	9.9	16.4	-18.9	84.1	-10.1	-4.1	-15.2	97.9	-7.7	-0.2	-15.5	429.1	21.4	9.4
	Services	1.2	8.8	5.3	-0.8	7.2	143.6	45.3	-6.2	8.2	145.9	46.5	-4.7	-49.6	207.3	52.5	8.0
	Software	8.5	5.9	-4.1	6.2	13.6	7.2	-3.6	10.2	29.7	11.2	2.2	17.6	64.6	14.2	17.0	23.1
	Media	-2.0	24.6	33.4	12.2	9.2	978.0	SP	SP	-8.9	886.0	128,821.2	SP	-54.7	SP	SP	SP
	Telecommunications	-6.3	8.8	5.5	3.2	12.7	-4.8	5.2	0.3	SP	26.4	-55.4	-63.7	SP	-26.1	-87.2	-63.7
	Construction, engineering	-8.0	4.7	3.1	6.0	-19.9	-33.1	-39.4	-16.5	-18.5	-29.4	-36.0	-9.7	-11.9	-29.4	-32.7	-10.1
	Housing, real estate	-11.0	11.3	8.3	4.3	-14.6	41.6	26.7	3.2	-16.0	40.0	31.6	2.0	-15.9	54.4	32.5	-9.2
	Transportation	-16.7	19.8	12.9	16.2	LI	LS	LS	SP	LI	SP	SP	1,551.6	LI	SP	SP	SP
	Utilities	9.1	-17.3	-9.5	8.7	-70.6	-46.0	-33.9	SL	SL	-32.9	-46.5	SL	LS	-36.0	-37.8	SL
	Financials	-	-	-	-	-	-	-	-	116.0	38.8	65.0	23.1	8,108.7	48.8	67.0	35.1

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 2 March 2022. (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	14.5	12.9	12.2	-	-	-	1.41	1.34	2.37	2.56	2.75	7.2	9.6	10.1	10.1
	Russell/Nomura Large Cap (ex loss-making cos)	13.5	12.4	11.7	-	-	-	1.52	1.34	2.43	2.67	2.87	9.4	10.3	10.2	10.1
	Russell/Nomura Large Cap (ex financials)	15.3	13.5	12.8	8.6	8.0	7.6	1.60	1.51	2.21	2.38	2.56	7.5	10.2	10.9	10.8
	Manufacturing	15.6	14.0	13.0	9.3	8.6	8.1	1.73	1.60	2.13	2.38	2.59	7.0	10.7	11.2	11.3
	Basic materials	8.8	10.0	9.4	4.9	5.2	5.0	1.13	1.01	3.34	3.36	3.48	3.6	12.2	10.0	10.0
	Processing	15.9	13.6	12.5	9.8	8.6	8.1	1.74	1.62	1.89	2.19	2.44	7.6	10.7	11.6	11.6
	Nonmanufacturing	13.2	11.7	11.4	-	-	-	1.13	1.10	2.69	2.80	2.98	7.3	8.5	9.1	8.9
	Nonmanufacturing (ex financials)	14.9	12.7	12.4	7.7	7.1	7.0	1.43	1.37	2.34	2.38	2.51	8.2	9.5	10.5	10.1
Broad sectors	Basic materials	8.8	10.0	9.4	4.9	5.2	5.0	1.13	1.01	3.34	3.36	3.48	3.6	12.2	10.0	10.0
	Machinery, autos	13.5	11.1	10.4	8.5	7.3	7.0	1.34	1.28	2.35	2.77	3.04	5.7	9.8	11.1	11.1
	Electronics	19.1	17.1	15.4	11.4	10.4	9.6	2.42	2.17	1.46	1.64	1.87	11.0	12.0	12.2	12.4
	Consumption, distribution	16.9	16.6	16.2	10.4	10.3	10.0	1.86	1.75	2.09	2.23	2.37	6.5	10.7	10.5	10.1
	Information	15.4	15.8	14.9	7.9	8.0	7.8	1.82	1.77	2.47	2.35	2.40	24.3	12.1	11.0	11.1
	Utilities, infrastructure	17.2	8.9	8.5	6.7	4.9	4.7	1.03	0.99	2.67	2.96	3.15	1.3	5.9	10.7	10.3
	Financials	8.9	8.8	8.3	-	-	-	0.60	0.59	4.20	4.55	4.94	5.6	6.7	6.6	6.7
	Chemicals	10.1	10.7	9.9	5.5	5.7	5.4	1.25	1.12	2.90	3.10	3.27	4.3	11.7	10.3	10.4
Sectors	Steel, nonferrous metals	5.5	7.6	7.4	3.2	3.7	3.6	0.79	0.71	5.38	4.56	4.46	1.7	13.8	9.1	8.8
	Machinery	19.4	16.8	15.6	12.1	10.5	10.0	1.81	1.78	1.79	2.11	2.28	6.1	9.4	10.1	10.2
	Automobiles	11.6	9.4	8.9	7.3	6.3	6.0	1.18	1.12	2.65	3.12	3.44	5.6	10.0	11.5	11.4
	Electrical machinery, precision equipment	19.1	17.1	15.4	11.4	10.4	9.6	2.42	2.17	1.46	1.64	1.87	11.0	12.0	12.2	12.4
	Pharmaceuticals, healthcare	24.5	20.0	19.3	14.6	13.0	12.5	2.29	2.19	2.12	2.24	2.31	8.3	9.1	11.3	11.1
	Food products	19.0	16.7	15.1	10.4	10.2	9.6	1.85	1.71	2.71	3.39	3.65	8.6	9.3	10.6	11.3
	Household goods	28.7	26.1	21.2	17.5	16.4	14.1	3.32	3.11	1.51	1.73	1.83	8.0	11.3	11.5	13.2
	Trading companies	6.4	7.1	7.5	4.4	4.7	4.8	1.16	1.05	3.76	3.85	3.97	6.0	17.6	13.9	12.1
	Retailing	25.0	23.0	21.4	12.2	11.4	10.7	2.54	2.43	1.38	1.39	1.52	5.8	10.1	11.1	11.0
	Services	25.8	28.3	29.1	15.8	17.1	17.3	1.53	1.51	1.18	1.19	1.39	4.0	5.9	5.4	5.1
	Software	21.2	21.9	23.1	18.1	18.6	19.3	4.16	3.85	2.98	2.31	2.15	19.5	19.0	17.5	15.4
	Media	15.0	17.2	17.8	10.1	11.0	11.3	1.13	1.75	1.90	2.07	1.98	-2.7	12.2	9.8	8.9
	Telecommunications	13.4	13.8	12.5	6.0	6.1	5.8	1.47	1.37	2.24	2.39	2.56	28.9	10.7	9.9	10.4
	Construction	12.1	9.7	9.3	9.7	7.9	7.6	0.86	0.88	3.23	3.62	3.78	10.4	7.3	8.6	8.5
	Housing, real estate	11.5	10.4	9.9	8.0	7.4	7.0	1.17	1.10	2.88	3.12	3.28	8.6	10.0	10.0	9.9
	Transportation	24.1	7.8	7.6	7.5	4.6	4.5	1.34	1.24	2.20	2.62	2.90	-10.1	5.3	15.0	13.7
	Utilities	59.1	9.1	8.2	3.3	2.4	2.3	0.51	0.51	3.34	3.37	3.37	5.6	0.9	5.5	5.9
	Financials	8.9	8.8	8.3	-	-	-	0.60	0.59	4.20	4.55	4.94	5.6	6.7	6.6	6.7
	Russell/Nomura Small Cap	13.2	12.9	12.5	-	-	-	1.05	0.92	2.35	2.39	2.44	5.0	7.2	7.2	7.1
	Russell/Nomura Small Cap (ex financials)	13.8	13.6	13.1	7.3	7.2	7.1	1.21	1.06	2.25	2.30	2.34	5.2	7.9	7.8	7.6

Note: As of 2 March 2022.

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 2021.

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