

Outlook for FY22–23 corporate earnings

Quarterly Update

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For inquiries:
Market Strategy Research Dept
Equity Research Dept
Nomura Securities Co., Ltd.

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Summary and major assumptions

We expect underlying recurring profits to decline y-y in FY22

We forecast aggregate recurring profit growth at Russell/Nomura Large Cap constituents of 9.6% y-y in FY22 and 6.2% y-y in FY23. Excluding SoftBank Group [9984], at which transitory gains/losses have an outsized impact, our analysts forecast recurring profit growth for Russell/Nomura Large Cap companies at 7.0% in FY22 and 5.8% in FY23. Much of the recurring profit growth forecast for FY22 comes from positive effects of yen depreciation. The average forex assumption upon which these analyst forecasts are based is USD/JPY of 137.04 for FY22, up 24.7 from FY21. Based on the forex sensitivity figures estimated by our analysts (profit impact from every ¥1 change against the dollar), we estimate that FY22 recurring profit growth forecasts (excluding SoftBank Group) were pushed up 8.8ppt by the weaker yen. Excluding this forex impact, the underlying recurring profit forecast comes to -1.8% y-y.

Downward revisions to our recurring profit forecasts when factoring out benefits from weaker yen

We lower our recurring profit growth forecasts (excluding SoftBank Group) by 0.1% from our previous compilation (as of 1 September) for FY22 and lower them by 0.9% for FY23. Forex assumptions are a primary factor behind these revisions. We revise our average assumptions in the direction of a weaker yen, to USD/JPY 137.04 for FY22 (JPY7.11 higher than our previous assumption) and 140.00 for FY23 (+JPY10.00). Applying the forex sensitivity figures above, we estimate that the weaker yen pushed up our forecasts by 2.4% for FY22 and 3.1% for FY23. In other words, the impact of factors other than the weaker yen pushed down our forecasts by 2.5% and 4.0%, respectively.

Forecasts pushed down by economic slowdown, higher raw material prices, and semiconductor shortages

Factors lowering our forecasts include economic slowdowns, higher raw material prices, and semiconductor shortages. More analysts mentioned slowing economic conditions in particular as a factor for downward revisions to FY23 forecasts than for FY22 forecasts. In fact, looking at revision trends by sector, we see larger downward revisions in sectors generally thought to have high economic sensitivity, such as electric appliances & precision instruments, machinery, and steel & nonferrous metals.

Harsher earnings outlook in underlying terms similar to our previous forecasts

Much of the recurring profit growth forecast for FY22 stems from the weaker yen, and when excluding the impact of changes to forex assumptions, our recurring profit forecasts were revised down for both FY22 and FY23. We think the underlying earnings outlook for Japanese corporations, factoring out forex benefits, is getting tougher. This situation is unchanged from our previous bottom-up forecasts.

Future earnings forecasts revisions less likely to be helped by yen depreciation

The depreciation of the yen versus the dollar looks to have paused recently, with recent spot rates at USD/JPY 134–135, near the assumptions in our forecasts. This makes it look less likely that further yen weakening will lead to favorable revisions to forecasts. We now see an increased risk of downward revisions.

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

Items	Category	No. of cos	New					Old	
			FY19	FY20	FY21	FY22E	FY23E	FY21E	FY22E
			Actual	Actual	Actual	E	E	E	E
Sales (% y-y)	Russell/Nomura Large Cap (ex financials)	265	-2.5	-7.5	14.1	16.3	1.5	13.3	1.8
	Manufacturing	145	-2.7	-8.0	15.2	17.4	3.2	15.6	3.2
	Basic materials	29	-2.0	-12.1	28.8	23.4	-1.5	23.4	-0.9
	Processing	74	-4.5	-7.7	13.3	17.0	4.9	14.4	4.8
	Nonmanufacturing (ex financials)	120	-2.3	-6.8	12.8	14.9	-0.7	10.4	-0.1
Operating profits (% y-y)	Russell/Nomura Small Cap (ex financials)	1,092	0.3	-6.1	7.3	10.4	4.1	9.0	4.1
	Russell/Nomura Large Cap (ex financials)	265	-23.7	-18.9	58.3	9.4	12.8	11.2	11.7
	Manufacturing	145	-23.2	-3.4	58.2	11.3	6.5	12.7	6.6
	Basic materials	29	-48.7	13.7	148.5	4.2	-10.2	1.0	-6.4
	Processing	74	-20.1	-8.6	52.9	12.9	12.1	16.5	10.1
Recurring profits (% y-y)	Nonmanufacturing (ex financials)	120	-24.3	-36.2	58.5	5.4	26.9	8.1	23.0
	Russell/Nomura Small Cap (ex financials)	1,092	-6.0	-12.5	37.8	7.3	15.2	10.1	12.7
	Russell/Nomura Large Cap	287	-20.5	4.5	34.1	9.6	6.2	9.6	8.0
	Russell/Nomura Large Cap (ex financials)	265	-22.3	5.6	34.5	11.7	5.6	11.1	7.7
	Manufacturing	145	-27.2	7.6	56.9	10.7	4.2	11.2	5.2
	Basic materials	29	-52.0	13.7	164.2	4.7	-11.8	0.3	-6.6
	Processing	74	-24.5	8.7	47.8	10.6	9.2	13.2	8.4
	Nonmanufacturing	142	-14.3	2.0	14.7	8.4	8.5	7.8	11.2
	Nonmanufacturing (ex financials)	120	-16.0	3.3	8.8	13.3	7.8	10.9	11.7
After-tax profits (% y-y)	Russell/Nomura Small Cap	1,177	-7.3	-5.9	45.0	6.0	9.5	6.4	9.4
	Russell/Nomura Small Cap (ex financials)	1,092	-9.5	-7.0	50.1	5.6	9.9	6.0	9.7
	Russell/Nomura Large Cap	287	-31.6	16.3	38.9	7.9	5.3	7.6	7.7
	Russell/Nomura Large Cap (ex financials)	265	-35.6	18.3	39.5	10.8	4.6	10.0	7.3
	Manufacturing	145	-40.3	16.4	66.8	6.7	3.5	6.8	5.4
	Basic materials	29	-82.6	73.7	308.5	-3.8	-12.7	-8.3	-6.8
	Processing	74	-37.9	18.9	51.4	6.2	9.4	9.5	8.3
	Nonmanufacturing	142	-22.2	16.2	15.1	9.2	7.3	8.6	10.4
	Nonmanufacturing (ex financials)	120	-28.8	20.7	7.6	17.8	6.3	15.6	10.5
Russell/Nomura Small Cap	1,177	-12.0	2.1	72.2	9.5	6.4	9.5	6.4	
Russell/Nomura Small Cap (ex financials)	1,092	-13.9	1.2	84.9	8.2	7.7	9.8	6.1	

Note: Latest estimates as of 1 December 2022, previous estimates as of 1 September 2022.

Source: Nomura

Fig. 2: Key earnings estimate assumptions

		As of 17 Oct 2022				As of 15 Jul 2022					
FY	Half-yearly	Industrial production	Policy rate	WTI	Exchange rate		Industrial production	Policy rate	WTI	Exchange rate	
		2015 base year	(FY-end)		(avg)		2015 base year	(FY-end)		(avg)	
		% y-y	%	\$/bbl	USD/JPY	EUR/JPY	% y-y	%	\$/bbl	USD/JPY	EUR/JPY
FY	FY21	5.7	-0.10	77.0	112.34	130.51	5.7	-0.10	77.0	112.34	130.51
	FY22	-1.0	-0.10	92.2	137.04	136.84	2.2	-0.10	93.7	129.93	132.02
	FY23	0.8	-0.10	76.0	140.00	135.00	1.2	-0.10	78.4	130.00	130.00
Half-yearly	FY21 H1	12.2	-0.10	68.3	109.75	130.80	12.2	-0.10	68.3	109.75	130.80
	FY21 H2	0.1	-0.10	85.7	114.93	130.23	0.1	-0.10	85.7	114.93	130.23
	FY22 H1	-1.9	-0.10	100.0	134.07	138.68	1.0	-0.10	101.7	129.86	134.04
	FY22 H2	0.0	-0.10	84.5	140.00	135.00	3.4	-0.10	85.8	130.00	130.00
	FY23 H1	1.1	-0.10	78.0	140.00	135.00	1.7	-0.10	80.0	130.00	130.00
	FY23 H2	0.6	-0.10	74.0	140.00	135.00	0.7	-0.10	76.8	130.00	130.00

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 FY22

For FY22, our analysts expect recurring profits to increase in 14 of 19 sectors and fall in 5.

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

In the transportation sector, earnings from travel have been recovering as the easing of restrictions on movement lead to a recovery in the flow of people. For telecoms, the main factor is the impact of the physical settlement of prepaid contracts for Alibaba shares held by SoftBank Group. In the autos sector, rising input costs are being offset by yen depreciation and growth in output and sales as semiconductor shortages are gradually resolved. In the electrical machinery & precision equipment sector, while we expect an impact from the decline in demand for consumer equipment, we expect profit growth centered on automotive and industrial applications.

Sectors in which profits are forecast to decline include the utilities sector, the services sector, the steel & nonferrous metals sector, and the financials sector.

In the utilities sector, we see an increase in electric power procurement costs stemming from higher JEPX prices, and companies have been unable to fully pass on the increase in costs because average fuel prices exceed the ceilings in the fuel cost adjustment system. In the services sector we think harsh competitive conditions will result in a decline in postal and logistics profits. The steel & nonferrous metals sector is likely to be hit by a combination of deterioration in inventory valuation gains/losses and lower sales volume. Profits in the financials sector are being weighed down by higher insurance benefit payouts for hospitalizations owing to a resurgence in COVID-19 infections in Japan.

Overview of the corporate earnings outlook for FY23

For FY23, our analysts expect recurring profits to increase in 12 of 19 sectors and fall in 7.

Sectors expected to make large contributions to overall profit growth include utilities, automobiles, financials, and telecoms.

For utilities, losses related to the fuel cost adjustment system should drop out of the picture, and we forecast hikes to electricity rates and lower fuel expenses with the restart of nuclear reactors. We think automakers will be able to increase production substantially as the semiconductor shortage is resolved. We also expect demand to remain high even in the event of an economic recession given the pent-up demand in the US. For financials, we expect steady progress with overhead controls at major banks as earnings in customer-facing operations take a positive turn. In the telecoms sector, we expect losses at a new market entrant to narrow.

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

At trading companies, we expect profits to decline mainly in resource fields, as a result of lower market prices for resources such as iron ore and crude oil. For the chemicals sector, expected profit declines in the petroleum subsectors account for much of the forecast decline. In addition to the dropping out of inventory gains booked in FY22, our analysts assume a decline in crude oil prices heading into FY23. We also forecast deterioration in PVC margins with the slowdown in housing demand in North America. The shipping subsector accounts for a large portion of the profit decline we forecast for the transportation sector. Containership spot rates are falling, and as Ocean Network Express (ONE), the equity-method affiliate of the three major Japanese shipping companies, will be renewing annual rate contracts, we expect a gradual decline from Oct–Dec 2022. In the steel & nonferrous metals sector, we expect deterioration in inventory valuation gains/losses and a drop in steel prices at a lag to the drop in fuel and raw material prices.

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

FY22E				FY23E			
Increase in profits (%)				Increase in profits (%)			
	Growth	Contribution	Contribution (ex financials)		Growth	Contribution	Contribution (ex financials)
14 sectors				12 sectors			
Transportation	78.4	31.9	30.4	Utilities	SP	63.8	80.5
Telecommunications	62.1	25.2	24.0	Automobiles	19.6	45.4	57.2
Automobiles	11.3	16.6	15.9	Financials	10.6	20.7	-
Electrical machinery, precision equipment	10.0	14.3	13.7	Telecommunications	15.7	14.6	18.4
Trading companies	14.0	14.2	13.6	Services	13.2	6.6	8.3
Chemicals	11.7	11.4	10.9	Pharmaceuticals, healthcare	8.0	5.5	7.0
Pharmaceuticals, healthcare	30.4	11.3	10.8	Household goods	25.4	5.3	6.7
Retailing	19.7	5.8	5.6	Electrical machinery, precision equipment	1.8	4.0	5.1
Machinery	10.2	5.3	5.1	Housing, real estate	4.2	3.1	4.0
Food	19.1	5.3	5.0	Media	13.3	0.9	1.2
Housing, real estate	9.5	4.6	4.3	Retailing	0.9	0.5	0.6
Construction	11.6	0.9	0.9	Construction	2.2	0.3	0.3
Software	0.2	0.0	0.0				
Household goods	0.0	0.0	0.0				
				Decrease in profits (%)			
Decrease in profits (%)				7 sectors			
5 sectors				Machinery	-0.2	-0.2	-0.3
Media	-22.7	-1.4	-1.4	Food	-2.1	-1.0	-1.2
Financials	-3.3	-4.7	-	Software	-4.1	-1.5	-1.8
Steel, nonferrous metals	-15.9	-5.3	-5.0	Steel, nonferrous metals	-23.4	-9.3	-11.7
Services	-13.6	-5.6	-5.3	Transportation	-11.0	-11.4	-14.3
Utilities	SL	-29.8	-28.5	Chemicals	-8.8	-13.5	-17.1
				Trading companies	-20.6	-33.9	-42.7

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 FY22

Our analysts have raised their FY22 recurring profit forecasts for 11 out of 19 sectors and lowered them for 8.

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

For trading companies, we raise our forecasts for resource fields in light of high coal prices and brisk LNG trading. Earnings have also been recovering faster than previously expected in non-resource fields such as autos, machinery, and infrastructure. For transportation, upward revisions for shippers are the main factor. We factor in a larger impact than previously expected from revisions to yearly rates at ONE. In the chemicals sector, the revision to our forex assumptions in the direction of a weaker yen had a major impact, and we factor in an increase in inventory gains in the oil subsector, for example. Apart from forex, though, we see noticeable negative factors such as deterioration in petrochemical margins stemming from the economic slowdown. For telecoms, the main factor is the impact of the physical settlement of prepaid contracts for Alibaba shares held by SoftBank Group, as mentioned above.

Sectors for which our analysts have made large downward revisions include utilities, electrical machinery & precision equipment, financials, and automobiles.

For utilities, we mainly lower our forecasts for gains/losses under the fuel cost adjustment system to factor in a weaker yen. In the electrical machinery & precision equipment sector, semiconductor manufacturers have been holding back on capex in reaction to the slowing economy. Some companies are also seeing impacts from the restrictions on exports to China announced by the US in October. We also lower our outlook for consumer electronic products such as smartphones and PCs. For electronic parts in particular, we see a decline in parts demand larger than the decline in actual demand as a result of inventory adjustments in finished products. For the autos sector, we factor in higher raw material costs as well as a lower production volume outlook for FY22 in light of the semiconductor shortage.

Overview of the corporate earnings outlook for FY23

Our analysts have raised their FY23 recurring profit forecasts for 8 out of 19 sectors and lowered them for 10.

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

Our upward revisions for the trading company sector are mainly in non-resource fields. In resource fields, our upward revisions are minimal, as while prices for resources such as coal remain high, iron ore prices have been falling. For the utilities sector, our upward revisions mainly reflect hikes to corporate electricity prices and higher average wholesale electricity prices. In the autos industry, we revise our forex assumptions in the direction of a weaker yen, which compensates for higher input prices and a reduced outlook for production volume. In retailing, we factor in the robust performance at overseas convenience store operations.

Sectors for which our analysts have made large downward revisions include telecoms, electrical machinery & precision equipment, financials, and machinery.

For the telecoms industry we mainly reflect the removal of Alibaba as an equity-method affiliate of SoftBank Group. For the electrical machinery & precision equipment sector, in addition to the factors pushing down earnings discussed above, we revise down our forecasts for industrial electronics in light of the economic slowdown. We factor the downtrend in the machinery order cycle into our forecasts for the machinery industry.

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

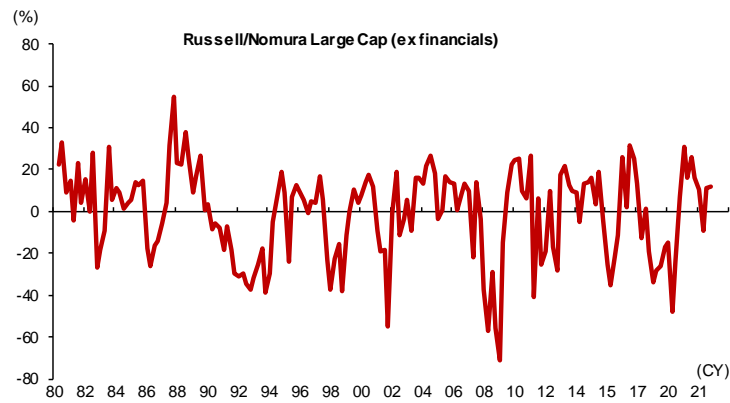
FY22E					FY23E				
[Upward revisions]					[Upward revisions]				
	New	Old	Revision	Change		New	Old	Revision	Change
	¥bn	¥bn	¥bn	%		¥bn	¥bn	¥bn	%
11 sectors					8 sectors				
Trading companies	5,933	5,391	541.5	10.0	Trading companies	4,708	4,405	303.0	6.9
Transportation	3,722	3,321	400.3	12.1	Utilities	1,057	940	116.8	12.4
Chemicals	5,559	5,333	225.4	4.2	Automobiles	10,016	9,916	99.2	1.0
Telecommunications	3,370	3,254	115.7	3.6	Retailing	1,829	1,775	53.9	3.0
Machinery	2,952	2,867	85.5	3.0	Housing, real estate	2,802	2,760	42.0	1.5
Retailing	1,812	1,735	77.3	4.5	Software	1,239	1,231	8.2	0.7
Steel, nonferrous metals	1,430	1,360	70.0	5.1	Chemicals	5,069	5,061	8.1	0.2
Housing, real estate	2,688	2,641	47.2	1.8	Food	1,644	1,641	3.0	0.2
Software	1,292	1,262	30.2	2.4					
Pharmaceuticals, healthcare	2,487	2,477	10.7	0.4	[Downward revisions]				
Food	1,680	1,671	9.1	0.5	10 sectors				
						New	Old	Revision	Change
						¥bn	¥bn	¥bn	%
8 sectors					Household goods	951	970	-19.0	-2.0
Media	253	254	-0.9	-0.4	Construction	456	477	-20.5	-4.3
Household goods	758	762	-4.0	-0.5	Pharmaceuticals, healthcare	2,687	2,722	-34.9	-1.3
Construction	446	454	-7.5	-1.7	Transportation	3,311	3,404	-93.1	-2.7
Services	1,804	1,990	-185.8	-9.3	Steel, nonferrous metals	1,095	1,190	-95.0	-8.0
Automobiles	8,376	8,608	-232.2	-2.7	Services	2,042	2,168	-125.8	-5.8
Financials	7,043	7,298	-254.8	-3.5	Machinery	2,945	3,089	-143.5	-4.6
Electrical machinery, precision equipment	8,067	8,375	-307.5	-3.7	Financials	7,791	8,019	-228.6	-2.9
Utilities	-1,249	-645	-603.3	-	Electrical machinery, precision equipment	8,213	8,505	-292.4	-3.4
					Telecommunications	3,898	4,509	-610.8	-13.5

Note: Latest estimates as of 1 December 2022, previous estimates as of 1 September 2022.

Source: Nomura

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

(yy/m)	21/3	21/6	21/9	21/12	22/3	22/6	22/9	22/12
Russell/Nomura Large Cap	29.3	16.2	25.7	17.1	11.5	-8.7	11.5	9.1
Russell/Nomura Large Cap (ex financials)	31.0	16.1	26.1	16.1	10.2	-9.1	13.2	11.7
Manufacturing	38.7	18.5	32.4	20.8	6.2	-13.1	22.1	4.1
Basic materials	52.8	61.1	36.1	47.2	48.3	-17.2	44.8	0.0
Processing	64.6	27.8	46.8	24.1	2.7	-10.8	10.8	2.7
Nonmanufacturing (ex financials)	21.2	13.1	18.2	10.2	15.0	-4.2	2.5	20.8



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)

		No. of cos	FY18	FY19	FY20	FY21	FY22E		FY23E		(%)
							Old	New	Old	New	
Industrial groups	Russell/Nomura Large Cap (ex financials)	265	6.5	-2.5	-7.5	14.1	13.3	16.3	1.8	1.5	
	Manufacturing	145	3.0	-2.7	-8.0	15.2	15.6	17.4	3.2	3.2	
	Basic materials	29	7.0	-2.0	-12.1	28.8	23.4	23.4	-0.9	-1.5	
	Processing	74	1.7	-4.5	-7.7	13.3	14.4	17.0	4.8	4.9	
	Nonmanufacturing (ex financials)	120	11.5	-2.3	-6.8	12.8	10.4	14.9	-0.1	-0.7	
Broad sectors	Materials	29	7.0	-2.0	-12.1	28.8	23.4	23.4	-0.9	-1.5	
	Machinery, autos	38	2.2	-4.4	-10.4	13.9	18.6	21.2	6.8	7.4	
	Electronics	36	0.8	-4.8	-3.0	12.5	8.1	10.5	1.5	0.6	
	Consumer, distribution	84	15.5	-0.6	-4.4	15.6	8.3	12.6	-2.6	-4.0	
	Information	27	3.7	-7.4	-0.6	6.0	4.2	6.5	3.0	3.7	
	Utilities, infrastructure	51	3.8	0.2	-12.2	6.0	17.2	21.3	5.2	5.9	
Sectors	Chemicals	25	8.0	-1.2	-12.4	27.8	25.9	25.3	-1.6	-2.9	
	Steel, nonferrous metals	4	4.7	-3.9	-11.3	31.5	16.3	18.0	1.2	2.9	
	Machinery	23	3.0	-3.6	-5.5	17.8	10.8	15.1	3.5	1.4	
	Autos	15	2.0	-4.6	-11.8	12.8	21.1	23.2	7.8	9.2	
	Electrical machinery, precision equipment	36	0.8	-4.8	-3.0	12.5	8.1	10.5	1.5	0.6	
	Pharmaceuticals, healthcare	16	3.5	9.7	-2.1	7.4	8.8	10.3	1.9	2.0	
	Food products	13	2.5	0.7	-3.9	2.0	9.9	10.5	2.9	3.4	
	Household goods	13	3.5	-0.8	-7.4	9.2	7.9	8.9	5.4	4.7	
	Trading companies	8	45.0	-5.0	-5.8	30.3	7.3	15.9	-10.4	-13.0	
	Retailing	15	3.1	2.5	-3.4	13.7	13.5	14.6	3.6	4.6	
	Services	19	1.9	-2.5	-4.0	3.1	3.2	4.3	2.5	0.7	
	Software	13	9.5	7.5	9.2	3.8	2.5	4.0	1.4	0.9	
	Media	3	6.4	0.8	-12.9	19.7	9.5	9.5	7.3	7.1	
	Telecommunications	11	2.7	-10.7	-0.6	5.4	4.1	6.7	2.9	4.0	
	Construction, engineering	5	8.0	5.1	-9.8	5.8	10.3	13.3	3.9	3.5	
	Housing, real estate	18	5.4	2.3	-4.3	8.4	6.8	8.1	4.0	3.9	
	Transportation	20	-1.1	-2.2	-28.2	15.5	20.0	22.5	5.4	4.5	
Utilities	8	6.6	-0.9	-3.1	-4.1	29.3	38.9	6.6	9.9		

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

Source: Nomura

Fig. 7: Percentage change in recurring profits by sector (% y-y)

		No. of cos	FY18	FY19	FY20	FY21	FY22E		FY23E		(%)
							Old	New	Old	New	
Industrial groups	Russell/Nomura Large Cap	287	1.1	-20.5	4.5	34.1	9.6	9.6	8.0	6.2	
	Russell/Nomura Large Cap (ex financials)	265	3.1	-22.3	5.6	34.5	11.1	11.7	7.7	5.6	
	Manufacturing	145	-1.5	-27.2	7.6	56.9	11.2	10.7	5.2	4.2	
	Basic materials	29	2.1	-52.0	13.7	164.2	0.3	4.7	-6.6	-11.8	
	Processing	74	-2.6	-24.5	8.7	47.8	13.2	10.6	8.4	9.2	
	Nonmanufacturing	142	3.7	-14.3	2.0	14.7	7.8	8.4	11.2	8.5	
	Nonmanufacturing (ex financials)	120	9.7	-16.0	3.3	8.8	10.9	13.3	11.7	7.8	
Broad sectors	Materials	29	2.1	-52.0	13.7	164.2	0.3	4.7	-6.6	-11.8	
	Machinery, autos	38	-8.9	-23.9	-7.0	57.8	12.5	11.0	13.3	14.4	
	Electronics	36	9.3	-25.3	34.8	36.0	14.2	10.0	1.6	1.8	
	Consumer, distribution	84	2.8	-9.5	-12.0	56.6	8.9	12.4	-2.5	-4.2	
	Information	27	33.1	-35.2	157.0	-60.0	29.0	33.0	26.3	10.3	
	Utilities, infrastructure	51	-2.5	-2.6	-68.8	137.7	10.5	7.4	31.4	36.0	
	Financials	22	-10.5	-9.1	-1.4	31.9	0.2	-3.3	9.9	10.6	
Sectors	Chemicals	25	4.5	-34.2	-11.6	119.1	7.2	11.7	-5.1	-8.8	
	Steel, nonferrous metals	4	-7.3	SL	SP	555.9	-20.0	-15.9	-12.5	-23.4	
	Machinery	23	9.6	-30.0	-5.0	61.7	7.0	10.2	7.7	-0.2	
	Autos	15	-14.6	-21.5	-7.7	56.5	14.4	11.3	15.2	19.6	
	Electrical machinery, precision equipment	36	9.3	-25.3	34.8	36.0	14.2	10.0	1.6	1.8	
	Pharmaceuticals, healthcare	16	-3.5	8.0	11.8	6.5	29.9	30.4	9.9	8.0	
	Food products	13	-3.7	-15.6	0.6	10.0	18.5	19.1	-1.8	-2.1	
	Household goods	13	6.9	-7.5	-23.6	30.0	0.6	0.0	27.2	25.4	
	Trading companies	8	10.4	-27.9	-26.8	208.6	3.6	14.0	-18.3	-20.6	
	Retailing	15	3.3	4.1	-17.7	20.0	14.6	19.7	2.3	0.9	
	Services	19	0.0	1.7	-14.3	36.1	-4.7	-13.6	8.9	13.2	
	Software	13	16.7	20.1	39.6	14.4	-2.1	0.2	-2.5	-4.1	
	Media	3	4.1	-57.5	SL	SP	-22.4	-22.7	12.9	13.3	
	Telecommunications	11	38.5	-41.4	207.6	-74.9	56.5	62.1	38.5	15.7	
	Construction, engineering	5	-1.1	0.6	-13.4	-22.8	13.5	11.6	5.1	2.2	
	Housing, real estate	18	-2.7	5.4	-10.8	24.1	7.6	9.5	4.5	4.2	
	Transportation	20	2.2	-17.4	SL	SP	59.2	78.4	2.5	-11.0	
Utilities	8	-12.8	17.7	-15.3	-61.2	SL	SL	SP	SP		
Financials	22	-10.5	-9.1	-1.4	31.9	0.2	-3.3	9.9	10.6		

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

Source: Nomura

Fig. 8: Recurring profits by sector (Unit: ¥1bn)

		No. of cos	FY18	FY19	FY20	FY21	FY22E Old	FY22E New	FY23E Old	FY23E New
Industrial groups	Russell/Nomura Large Cap	287	48,162	38,542	40,173	53,958	58,408	58,424	63,067	62,038
	Russell/Nomura Large Cap (ex financials)	265	41,796	32,757	34,590	46,630	51,109	51,381	55,047	54,247
	Manufacturing	145	23,510	17,180	18,613	29,038	31,452	31,309	33,093	32,619
	Basic materials	29	4,963	2,453	2,721	7,020	6,693	6,989	6,251	6,164
	Processing	74	14,552	10,942	12,114	17,723	19,850	19,395	21,510	21,173
	Nonmanufacturing	142	24,652	21,362	21,560	24,920	26,955	27,115	29,973	29,419
	Nonmanufacturing (ex financials)	120	18,286	15,578	15,977	17,592	19,657	20,072	21,954	21,628
Broad sectors	Materials	29	4,963	2,453	2,721	7,020	6,693	6,989	6,251	6,164
	Machinery, autos	38	8,911	6,745	6,492	10,244	11,475	11,328	13,005	12,961
	Electronics	36	5,641	4,197	5,622	7,479	8,375	8,067	8,505	8,213
	Consumer, distribution	84	10,312	9,397	8,260	13,236	14,026	14,475	13,680	13,860
	Information	27	5,753	3,728	9,589	3,820	4,770	4,915	6,027	5,424
	Utilities, infrastructure	51	6,216	6,236	1,906	4,831	5,771	5,607	7,580	7,625
	Financials	22	6,366	5,785	5,583	7,328	7,298	7,043	8,019	7,791
Sectors	Chemicals	25	4,036	2,758	2,425	5,218	5,333	5,559	5,061	5,069
	Steel, nonferrous metals	4	927	-305	296	1,802	1,360	1,430	1,190	1,095
	Machinery	23	2,539	1,781	1,670	2,637	2,867	2,952	3,089	2,945
	Autos	15	6,372	4,964	4,822	7,608	8,608	8,376	9,916	10,016
	Electrical machinery, precision equipment	36	5,641	4,197	5,622	7,479	8,375	8,067	8,505	8,213
	Pharmaceuticals, healthcare	16	1,540	1,632	1,810	1,983	2,477	2,487	2,722	2,687
	Food products	13	1,625	1,387	1,373	1,533	1,671	1,680	1,641	1,644
	Household goods	13	830	765	596	778	762	758	970	951
	Trading companies	8	3,148	2,271	1,663	5,203	5,391	5,933	4,405	4,708
	Retailing	15	1,497	1,612	1,310	1,651	1,735	1,812	1,775	1,829
	Services	19	1,672	1,731	1,509	2,086	1,990	1,804	2,168	2,042
	Software	13	620	813	1,172	1,381	1,262	1,292	1,231	1,239
	Media	3	364	154	-2	327	254	253	287	287
	Telecommunications	11	4,769	2,761	8,419	2,112	3,254	3,370	4,509	3,898
	Construction, engineering	5	696	734	636	501	454	446	477	456
	Housing, real estate	18	2,055	2,165	1,878	2,509	2,641	2,688	2,760	2,802
	Transportation	20	2,474	2,170	-1,573	1,446	3,321	3,722	3,404	3,311
Utilities	8	992	1,167	965	375	-645	-1,249	940	1,057	
Financials	22	6,366	5,785	5,583	7,328	7,298	7,043	8,019	7,791	

Note: Figures exclude listed consolidated subsidiaries. Index composition for period through FY21 differs from index composition from FY22 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 2022; previous estimates as of 1 September 2022.

Source: Nomura

Fig. 9: Percentage change in quarterly sales and profits (FY21 Q2–FY22 Q1)

		%y-y															
		Sales				Operating profits				Recurring profits				Net profits			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Industrial groups	Russell/Nomura Large Cap	-	-	-	-	-	-	-	-	10.4	-14.5	-17.6	30.8	17.7	-21.6	-26.1	35.0
	Russell/Nomura Large Cap (ex financials)	11.5	11.4	17.2	23.7	15.6	23.0	5.9	3.6	8.6	-15.8	-16.9	44.2	15.2	-21.8	-24.2	51.9
	Manufacturing	9.6	10.4	14.3	23.9	13.9	18.1	2.5	11.3	16.8	10.1	7.9	15.6	15.8	3.7	4.3	5.2
	Basic materials	28.8	26.0	35.5	32.8	75.5	57.5	50.3	4.4	84.9	58.9	57.0	8.2	83.9	74.7	60.4	-12.2
	Processing	4.6	6.3	8.9	23.1	4.3	9.5	-14.6	19.8	7.6	-0.2	-7.6	23.6	6.8	-7.9	-12.4	14.8
	Nonmanufacturing	-	-	-	-	-	-	-	-	4.4	-42.3	-42.4	46.7	19.6	-55.6	-55.6	68.1
	Nonmanufacturing (ex financials)	14.1	12.7	21.0	23.5	19.1	36.4	13.7	-11.3	-1.3	-52.3	-50.3	87.9	14.3	-65.9	-64.0	129.0
Broad sectors	Basic materials	28.8	26.0	35.5	32.8	75.5	57.5	50.3	4.4	84.9	58.9	57.0	8.2	83.9	74.7	60.4	-12.2
	Machinery, autos	1.2	6.2	9.7	26.9	-7.9	-7.0	-24.0	18.4	-0.8	-12.5	-10.7	25.1	-7.2	-24.3	-17.3	12.7
	Electronics	10.1	6.4	7.7	17.4	21.7	32.6	0.6	21.4	20.7	19.8	-2.0	21.9	28.1	18.2	-3.8	17.1
	Consumption, distribution	16.2	15.3	19.7	21.6	-2.4	11.2	2.3	-1.4	26.2	55.6	23.9	5.6	35.6	81.6	30.0	8.1
	Information	4.2	5.3	6.0	8.3	21.9	7.1	-8.0	-18.6	-49.1	SL	SL	362.9	-45.2	SL	SL	837.3
	Utilities, infrastructure	9.1	7.9	24.7	29.9	39.4	144.0	68.0	-17.5	60.2	363.8	101.4	10.0	94.3	SP	118.3	23.9
	Financials	-	-	-	-	-	-	-	23.1	-2.4	-21.8	-43.9	35.1	-20.0	-36.5	-56.1	
Sectors	Chemicals	27.4	25.2	38.5	36.5	62.5	59.6	56.8	5.0	74.1	62.8	65.8	9.8	79.6	100.4	68.3	-9.7
	Steel, nonferrous metals	32.8	28.2	26.9	21.9	118.4	51.1	33.4	2.4	119.2	46.8	33.4	2.2	93.2	30.8	41.7	-19.3
	Machinery	16.0	13.7	13.3	25.3	20.0	17.0	-2.5	36.5	22.5	0.5	12.5	45.9	17.6	5.0	9.3	49.7
	Automobiles	-2.5	4.1	8.6	27.4	-15.2	-15.7	-31.2	11.5	-6.4	-17.1	-17.4	18.4	-13.6	-32.6	-24.6	0.7
	Electrical machinery, precision equipment	10.1	6.4	7.7	17.4	21.7	32.6	0.6	21.4	20.7	19.8	-2.0	21.9	28.1	18.2	-3.8	17.1
	Pharmaceuticals, healthcare	6.6	10.9	5.5	10.5	-5.6	-12.8	-24.2	2.8	-7.2	-26.1	-15.4	5.4	-6.5	-41.5	-13.7	6.6
	Food products	3.9	-0.6	12.8	17.2	-15.9	-9.0	31.6	11.0	-14.8	-10.2	27.3	18.1	-5.1	-3.5	34.5	2.8
	Household goods	7.4	7.4	10.3	15.5	-10.3	48.5	12.7	-37.6	-6.9	46.6	23.2	-34.5	-4.2	118.3	31.7	-29.5
	Trading companies	32.7	26.0	32.4	32.4	45.7	31.7	43.9	42.8	160.4	267.2	58.4	18.8	183.1	286.1	61.1	19.1
	Retailing	16.4	18.7	18.0	22.0	-4.1	23.0	12.1	16.9	-0.2	20.8	29.2	31.5	9.4	47.8	42.4	20.6
	Services	-0.8	0.8	4.3	4.1	-6.2	17.2	-17.4	-28.6	-4.7	19.7	-12.3	-27.2	8.0	284.7	-2.6	-0.9
	Software	6.2	3.9	1.2	11.4	10.2	16.2	-12.1	3.3	17.6	22.6	14.2	18.3	23.1	10.7	8.4	22.7
	Media	12.2	21.0	15.2	9.4	SP	27.1	-33.7	-70.6	SP	47.8	-13.1	-70.2	SP	154.1	-21.4	-59.8
	Telecommunications	3.2	4.3	6.3	7.6	0.3	-1.3	-4.0	-15.4	-63.7	SL	SL	608.9	-63.7	SL	SL	2,469.6
	Construction, engineering	6.0	8.1	7.5	18.8	-16.5	-25.5	-27.3	48.8	-9.7	-20.1	-9.5	47.1	-10.1	-22.0	-7.9	34.3
	Housing, real estate	4.3	10.9	12.1	8.4	3.2	24.8	19.6	-3.2	2.0	34.2	26.0	-0.1	-9.2	30.9	25.0	7.6
	Transportation	16.2	14.8	30.2	33.3	SP	LS	SP	SP	1,551.6	SP	909.5	228.1	SP	SP	528.3	203.6
	Utilities	8.7	0.4	43.6	57.5	SL	SL	SL	SL	SL	LS	SL	SL	SL	LS	SL	SL
		Financials	-	-	-	-	-	-	-	23.1	-2.4	-21.8	-43.9	35.1	-20.0	-36.5	-56.1

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 1 December 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		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY21	FY22E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
		x	x	x	x	x	x	x	x	%	%	%	%	%	%
Industrial groups	Russell/Nomura Large Cap	14.2	13.5	13.1	-	-	-	1.39	1.31	2.47	2.57	2.66	9.6	9.5	9.4
	Russell/Nomura Large Cap (ex loss-making cos)	13.2	13.0	12.7	-	-	-	1.44	1.34	2.51	2.65	2.74	10.5	9.5	9.4
	Russell/Nomura Large Cap (ex financials)	14.7	14.1	13.7	8.5	8.2	8.0	1.55	1.46	2.31	2.37	2.44	10.2	10.0	9.8
	Manufacturing	14.9	14.4	13.9	8.9	8.6	8.4	1.62	1.52	2.24	2.36	2.45	10.6	10.2	10.1
	Basic materials	8.3	9.5	8.9	4.7	4.9	4.6	0.99	0.90	3.57	3.51	3.62	11.4	9.2	9.2
	Processing	15.0	13.7	13.6	9.1	8.5	8.4	1.58	1.48	2.08	2.24	2.31	10.2	10.4	10.1
Broad sectors	Nonmanufacturing	13.4	12.5	12.2	-	-	-	1.18	1.12	2.77	2.83	2.93	8.6	8.7	8.6
	Nonmanufacturing (ex financials)	14.6	13.7	13.4	7.9	7.5	7.4	1.46	1.37	2.44	2.39	2.42	9.7	9.7	9.3
	Basic materials	8.3	9.5	8.9	4.7	4.9	4.6	0.99	0.90	3.57	3.51	3.62	11.4	9.2	9.2
	Machinery, autos	12.7	11.0	10.4	7.9	7.1	6.8	1.23	1.16	2.53	2.81	3.12	9.4	10.3	10.2
	Electronics	17.9	17.9	19.1	10.7	10.5	10.9	2.17	1.97	1.65	1.72	1.56	11.6	10.7	10.1
	Consumption, distribution	16.1	17.6	16.8	10.3	10.9	10.5	1.91	1.81	2.08	2.11	2.19	11.6	9.9	9.8
Sectors	Information	23.0	19.4	17.8	9.6	8.9	8.5	1.93	1.81	2.23	2.27	2.37	8.1	9.2	9.5
	Utilities, infrastructure	11.9	9.2	9.4	5.9	5.1	5.1	1.03	0.97	3.26	3.05	2.99	8.4	10.2	9.4
	Financials	10.0	9.1	8.7	-	-	-	0.66	0.64	4.14	4.70	5.06	6.4	6.9	7.3
	Chemicals	9.3	10.1	9.3	5.2	5.4	5.0	1.10	1.00	3.20	3.27	3.37	11.4	9.6	9.8
	Steel, nonferrous metals	5.3	7.3	7.1	2.9	3.4	3.4	0.65	0.58	5.54	4.75	4.95	11.5	7.8	7.6
	Machinery	17.2	17.1	15.9	10.8	10.7	10.0	1.72	1.62	2.00	2.04	2.18	9.7	9.2	9.3
	Automobiles	11.1	9.1	8.7	6.9	6.0	5.7	1.06	1.00	2.84	3.24	3.66	9.3	10.7	10.4
	Electrical machinery, precision equipment	17.9	17.9	19.1	10.7	10.5	10.9	2.17	1.97	1.65	1.72	1.56	11.6	10.7	10.1
	Pharmaceuticals, healthcare	21.9	23.2	20.7	13.8	14.6	13.7	2.45	2.49	1.90	1.98	2.04	11.6	10.5	11.2
	Food products	18.6	18.4	16.8	11.2	11.0	10.3	1.89	1.91	2.68	2.83	3.11	10.5	10.1	10.5
	Household goods	30.1	23.6	21.7	18.1	15.3	14.3	3.28	3.08	1.71	1.76	1.88	10.5	12.6	12.7
	Trading companies	6.5	8.2	8.4	4.7	5.4	5.5	1.16	0.99	3.70	3.64	3.64	16.4	11.6	10.4
	Retailing	25.2	25.1	23.1	12.4	12.1	11.3	2.69	2.67	1.25	1.31	1.37	11.1	10.3	10.4
	Services	25.0	24.9	23.8	15.7	15.7	15.2	1.55	1.55	1.32	1.28	1.32	6.3	6.1	6.2
	Software	21.7	22.8	22.5	18.6	19.3	18.9	3.89	3.78	2.35	2.15	2.15	17.8	15.9	14.8
	Media	17.7	15.3	15.1	10.9	9.9	9.8	1.67	1.58	2.31	2.38	2.38	9.2	10.0	9.5
Telecommunications	24.2	18.3	16.3	7.7	7.0	6.7	1.55	1.45	2.17	2.32	2.48	6.2	7.8	8.5	
Construction	10.1	9.9	9.3	8.1	8.0	7.6	0.86	0.80	3.71	3.96	4.25	8.1	7.9	8.2	
Housing, real estate	10.8	10.2	9.7	7.6	7.3	7.0	1.16	1.06	3.02	3.30	3.50	10.2	10.0	9.9	
Transportation	7.0	8.9	10.0	4.5	5.1	5.4	1.31	1.13	3.57	2.79	2.43	17.0	12.1	10.0	
Utilities	-	7.3	6.8	10.1	2.3	2.2	0.50	0.57	2.51	2.72	2.89	-10.3	7.6	7.6	
Financials	10.0	9.1	8.7	-	-	-	0.66	0.64	4.14	4.70	5.06	6.4	6.9	7.3	
Russell/Nomura Small Cap		13.5	12.8	12.5	-	-	-	0.99	0.96	2.45	2.50	2.53	7.3	7.4	7.2
Russell/Nomura Small Cap (ex financials)		14.4	13.4	13.2	7.6	7.3	7.2	1.11	1.07	2.37	2.41	2.42	7.7	7.8	7.6

Note: As of 1 December 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
- Stocks are chosen from the whole Japanese stock market
- 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.

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As at 30 September 2022.

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STOCKS

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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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