

“FY2013 Corporate Earnings Estimate and FY2014 Outlook of the Japanese Corporations”

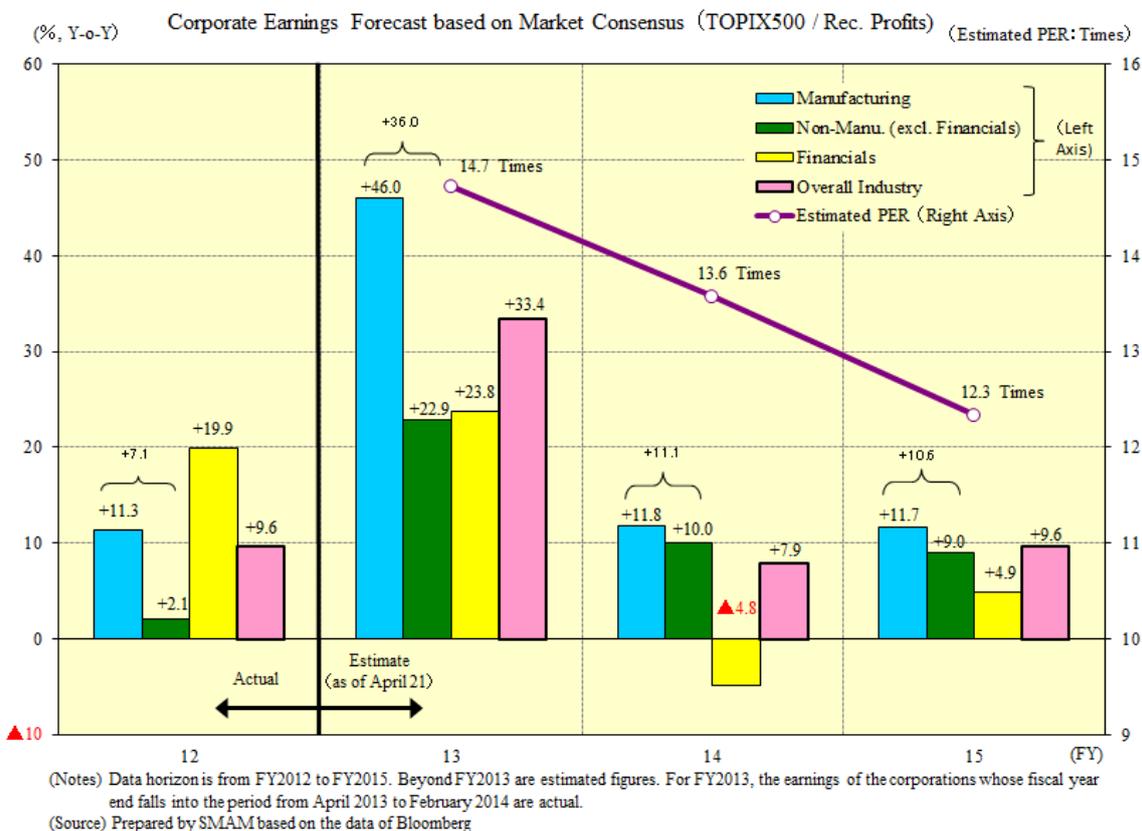
Slightly Better than Expected FY2013 Business Result

The announcement by the Japanese corporations of the full fiscal year business results as of 2014 March end has started. The corporate earnings showed substantial recovery thanks to the end of yen appreciation due to an unprecedented quantitative monetary easings aiming to “come out of deflation“ and by the strong “Tail Wind” created by the improving business environments realised through flexible fiscal policy. Consensus forecast (Bloomberg) of the FY 2013 recurring profits of the companies comprising TOPIX 500 index rose 33.4% y-o-y which was way above the forecast of +25% made in the beginning of this fiscal year. Especially, the profit growth rate of manufacturing sector was outstanding which rose 46.0% y-o-y versus + 22.9% y-o-y for non-manufacturing sector riding on the strong tail wind created by peaking of yen appreciation. For the manufacturing sector, the biggest contributors were industry groups such as transportation equipment and electric appliances who had benefitted the most from the peaking out of yen. As to the non-manufacturing sector, the contributors to the overall sector were electric power companies with their significant loss improvement, information & communication sector with their growth in sales of smartphone and wholesale trade sector including trading houses with earnings increase supported by weaker yen .

Watch the aftermath when the “Tail Wind” stops

FY2014 will be a year for each individual corporates to be tested for its capability to generate profit as “Tail Wind“ will stop and the decrease in demand could emerge as a reflection of rush demand ahead of the consumption tax hike. According to the April 21 consensus forecast, the recurring profits of the overall industry was +7.9% y-o-y in which both manufacturing sector and non-manufacturing sector (excl. financial) were estimated to have recorded double digit growth y-o-y of +11.8% and +10.0%, respectively. However, it should be noted that the forecast must have a wider range as the corporate earnings could swing in a big manner influenced by the overseas economic environments. With this in mind, the focus should be made on sectors such as material manufacturers like glass & ceramics, iron & steel who could enjoy the stable demand from the construction works created by earthquake disaster reconstruction, “National Resilience Plan”, Tokyo Olympic games etc. and on service providers relating to nursing care, women`s participation in society and childrearing. Since the overall market valuation based on estimated FY2014 PER is 13.6 times, which is about the same level of Europe and US, we believe that there is much room left for the market to rise once confidence of the market participants improve.





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