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## Apr.-Sep. 2015 Business Results and Japanese Stock Market Outlook

- Announcements of Apr.-Sep. 2015 business results of major companies are continuing. Increase in both revenue and profit is expected on YoY basis.
- Sector wise, while Steel and Machinery performed poorly, Electric Appliances, Transportation Equipment and Land Transportation performed well.
- As immediate improvement of external environment is unlikely, the catalyst for higher Japanese stock prices will be the new policy implementation by the government and BOJ.

**Announcements of Apr.-Sep. 2015 business results of major companies are continuing. Increase in both revenue and profit is expected on YoY basis.**

Although the announcements of Apr. - Sep. 2015 business results of Japanese companies are still continuing, outline of the overall results has become clearer. Almost 1,000 out of all companies listed in the Tokyo Stock Exchange Section 1, whose fiscal year end in March, have finished their announcements. Japanese stocks saw a significant correction from August to September over concerns on business performance due to sluggish commodity prices and the “China Shock” this summer. Therefore, I would like to analyze the business results of major sectors to find out how they were actually affected and forecast the Japanese stock market outlook.

So far it appears that revenue and recurring profits of Apr.-Sep. 2015 as a whole are around +5% and +15% YoY, respectively. Final business results are likely to increase in both revenue and profit, however, if we look at quarterly results, profit growth of Jul.-Sep. decelerated compared to that of Apr.-Jun., influenced by the China slowdown. On the whole, the earnings growth rate of non-manufacturers was higher than that of manufacturers in Apr.-Sep. 2015.

"Table 1: Price Return of Topix 33 sector indices from the beginning of 2015"

Sector	(%)	Sector	(%)	Sector	(%)
Other Products	32.1	Banks	18.8	Transportation Equip.	5.9
Retail Trade	31.3	Construction	18.0	Securities & Commodity Futures	5.5
Pharmaceutical	29.9	Textiles & Apparels	17.9	Electric Appliances	3.7
Insurance	28.7	Electric Power & Gas	15.5	Oil & Coal Products	2.2
Air Transportation	28.2	Services	15.2	Warehousing & Harbor Transportation	1.5
Foods	24.6	Glass & Ceramics Products	15.0	Real Estate	1.1
Other Financing	24.1	Chemicals	13.6	Nonferrous Metals	-0.2
Pulp & Paper	23.9	Fishery, Agriculture & Forestry	11.8	Machinery	-2.0
Information & Communication	21.7	Metal Products	10.2	Mining	-9.0
Land Transportation	21.6	Wholesale Trade	9.8	Marine Transportation	-11.3
Precision Instruments	19.8	Rubber Products	7.8	Iron & Steel	-19.2

(注) Data is from Dec. 30, 2014 to Nov. 11, 2015. Price return (indicated as %) of each sector index of TOPIX 33 sector indices. Price return of TOPIX for the same period was 13.3%.

(出所) SMAM, based on Bloomberg L. P. data.

**Sector wise, while Steel and Machinery performed poorly, Electric Appliances, Transportation Equipment and Land Transportation performed well.**

A bipolarization of business results is seen between poorly-performed sectors and well-performed sectors. Sectors which saw their profits decrease were “Iron & Steel”, “Machinery”, “Mining” and “Oil & Coal Products”. Profit margin squeeze in the “Iron & Steel” sector was incurred by the price fall of steel due to over-production and export increase by China, and “Machinery” was dragged by the sluggish demand for construction machinery due to China’s economic slowdown. In the case of “Mining” and “Oil & Coal Products” sectors, the drop in commodity prices such as crude oil and natural gas led to the deterioration of profit and the revaluation loss on inventories.

On the other hand, sectors showing sharp profit growth are “Electric Power & Gas”, “Chemicals”, “Transportation Equipment”, “Electric Appliances” and “Land Transportation”. “Electric Power & Gas” and “Chemicals” sectors saw profit margin expansion as fuel and raw material costs dropped thanks to commodity price fall. Strong demand in North American market and weaker yen contributed positively to overall business results of “Transportation Equipment” and “Electric Appliances”. Reasons for profit increase of “Land Transportation” were the demand increase by foreign tourists visiting Japan and the revenue growth from newly laid railways.

**As immediate improvement of external environment is unlikely, the catalyst for higher Japanese stock prices will be the new policy implementation by the government and BOJ.**

I believe it is fair to make a premise that China’s slowdown and low commodity prices will continue when forecasting the outlook in the second half of FY2015. Unexpected slowdown of US economy would be a huge risk to Japanese corporations’ business results and stock prices, as a retreatment of US rate hike expectations and uncertainty over the global economic outlook would cause a rapid weakening of USD against JPY. However, currently I see this as a sub-scenario.

The market’s expectation on policy supports by the government and BOJ is getting higher as the annual growth of recurring profit for FY2015 seems to stay at single digit. The Government is scheduled to announce a comprehensive TPP Related Policy Framework (tentative name) before November 25<sup>th</sup> and “Emergency Measures to Materialize Society Promoting Dynamic Engagement of All Citizens” before November 30<sup>th</sup>. I believe these policies will function as economic stimulus package for the time being and will likely become pillars of the supplemental budget. On the other hand, although I do not see BOJ in a hurry to

implement additional easing as the JPY and Japanese stock prices being stable, there is still a chance that BOJ may take an action in January 2016 to support the supplementary budget and also depending on the inflation trend. I believe that implementation of these policy measures may be the catalyst to boost Japanese stock prices.

**\* Please note that this report is a translation of Japanese report written on November 12th, 2015.**

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