

Today's Topic Major Japanese Corporations' Earnings Outlook (December 2016)

FY2016 earnings will mark record high for 3 years in a row and FY2017 will see a further growth

Point 1 Earnings forecast of FY2016
Recurring profit turned to increase

- According to SMAM's corporate earnings forecast (SMAM's Core Research Universe of 221 companies (excluding financials), as of December), recurring profit growth for FY2016 will be revised upward to +1.8% YoY, expected to mark record high for 3 years in a row. Main reason of upward revision was due to change of USD/JPY rate forecast (as of September 2016) from JPY 100 to JPY110.
- Recurring profit growth of manufacturers improved to -2.6% YoY (September 2016 forecast: -6.5%) and non-manufacturers' growth accelerated to +9.2% YoY (Ditto: +6.5%).

"SMAM's Earnings Forecast"

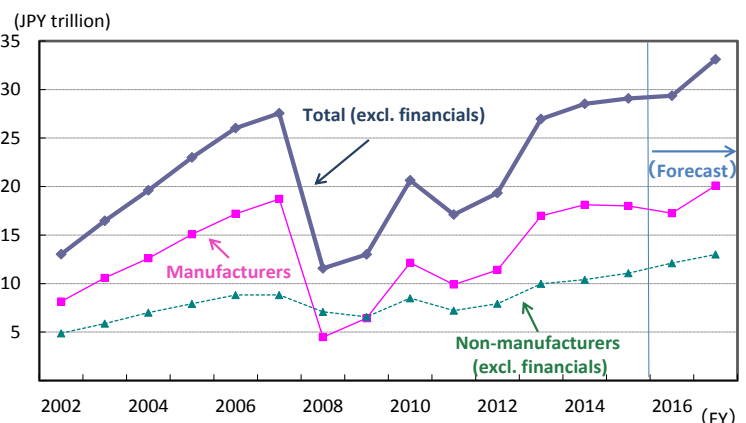
	FY	Sales	Operational Profit	Recurring Profit	Net Profit
Total (excl. financials) (221 companies)	2014	3.9%	3.1%	4.5%	5.4%
	2015	0.1%	9.1%	2.5%	▲ 3.2%
	2016	▲ 3.2%	▲ 1.5%	1.8%	12.8%
	2017	3.8%	11.6%	13.2%	13.0%
Manufacturers (137 companies)	2014	3.7%	3.4%	4.1%	7.3%
	2015	0.1%	4.3%	0.2%	▲ 1.8%
	2016	▲ 5.0%	▲ 4.0%	▲ 2.6%	3.6%
	2017	4.2%	13.9%	16.2%	17.4%
Non-Manufacturers (excl. financials) (84 companies)	2014	4.2%	2.5%	5.2%	2.3%
	2015	0.1%	17.7%	6.5%	▲ 5.7%
	2016	0.1%	2.4%	9.2%	30.1%
	2017	3.1%	8.1%	8.8%	6.4%

(Note) Data period is from FY2002 to FY2017. FY2016 and beyond are forecast.
Earnings forecast of SMAM's Core Research Universe (excluding financials)
(Source) SMAM

Point 2 Earnings forecast of FY2017
13% profit increase led by manufacturers

- Recurring profit for FY2017 is estimated to be JPY 33.8 trillion (+13.2% YoY), expected to renew its record high. Manufacturers are expected to deliver high recurring profit growth rate of +16.2% YoY and lead the overall corporate earnings growth. If you take a look at sector, you will find largest contributor by far was Auto sector due to weaker JPY, while many other sectors such as Industrial machinery and Precision equipment revised their earnings upward, too. Currency exchange rate used for FY2017 forecast were JPY 100 for USD/JPY rate and JPY115 for EUR/JPY rate.

"Recurring Profit of SMAM's Core Research Universe"

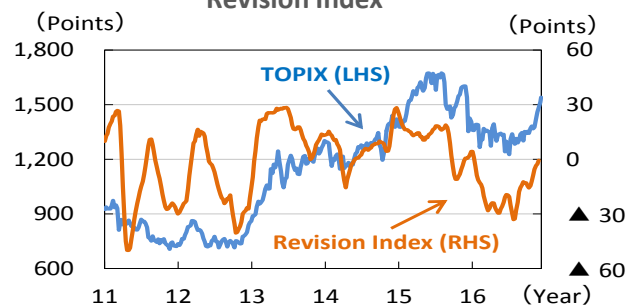


(Note) Data period is from FY2002 to FY2017. FY2016 and beyond are forecast.
(Source) SMAM

Future Outlook Corporate earnings is expected to underpin stock price

- Taking a look at Revision index (index calculated by subtracting ratio of corporates revised downward from that of revised upward), you will find that it had sharply bottomed out and has entered into positive territory from negative territory (as of 1st December 2016). Revision index is expected to further rise along with upward revision of corporate earnings and is expected to underpin Japanese stock market.

"Revision Index"



(Note) Data period is from 6th January 2011 to 13th December 2016. Revision index is from 6th January 2011 to 1st December 2016. 4 weeks moving average.
(Source) SMAM, based on Datastream data.

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