SuMi TRUST Monthly Commentary

February 2019

Earnings Forecast for FY 2018 and FY2019

SuMi TRUST has updated its operating profit forecast for the Nikkei 225 (see Figure 1) for the current fiscal year ending March 2019 (FY2018) and the next fiscal year ending March 2020 (FY2019). As to FY2018, despite a slowdown in earnings momentum, exporters such as electric appliances, machinery and materials should maintain solid earnings growth, thanks to steady high-tech demand in electronic components, a high level of capital investments, and a rise in commodity prices amid solid business confidence worldwide in the first half of the year.

As to FY2019, domestic companies will continue to generate stable earnings growth. Also, external demand-oriented companies such as transportation equipment will be able to generate solid earnings growth with raw material costs bottoming out, whilst the economic downturn roiled by the escalation of US-China trade frictions could weigh on corporate activities.

Since the end of September 2018, we have revised down our earnings forecast slightly on external demand-oriented companies such as high tech companies (smart phone/vehicle installation-related manufacturers) and machinery companies, due to slowing demand in China.

Figure 1. Operating Profit Forecast for FY2018 and FY2019

			No. of Co's	SuMi TRUST			Consensus
				FY2018	FY2019		FY2019
				Projection as of Dec 2018	Projection as of Sep 2018	Projection as of Dec 2018	Projection as of Dec 2018
Total			185	4.6%	7.0%	6.4%	5.4%
	Manufacturing		132	5.6%	7.0%	6.7%	6.9%
	Non-manufacturing		53	2.7%	6.9%	5.7%	2.6%
	Sector	**Chemicals & Textile**	22	8.7%	7.9%	6.2%	7.0%
	Sector	**Iron & Steel**	4	-1.2%	10.9%	13.5%	15.4%
	Sector	**Non-ferrous Metals**	11	-8.0%	10.2%	7.7%	7.8%
	Sector	**Energy Resources**	3	19.6%	-2.7%	1.5%	-7.9%
	Sector	**Auto & Transport Equipment**	14	-3.0%	5.7%	7.7%	6.1%
	Sector	**Machinery**	14	16.9%	11.1%	4.5%	10.0%
	Sector	**Electrical Appliances**	31	11.7%	8.8%	5.1%	8.2%
	Sector	**Glass & Ceramic Products**	8	15.1%	5.7%	11.8%	11.2%
	Sector	**Food**	13	0.8%	6.3%	10.0%	4.7%
	Sector	**Pharmaceuticals**	7	8.5%	8.3%	8.2%	14.7%
	Sector	**Pulp & Paper**	2	48.8%	5.7%	13.3%	10.0%
	Sector	**Other manufacturing**	3	-0.6%	6.2%	5.9%	4.6%
	Sector	**Retail**	8	13.7%	12.4%	12.4%	5.6%
	Sector	**Transportation & Logistics**	15	1.9%	8.9%	7.3%	5.2%
	Sector	**Construction & Real Estate**	15	-3.7%	5.3%	9.8%	8.7%
	Sector	**Information & Communication**	7	3.0%	5.3%	0.8%	-1.7%
	Sector	**Services**	8	6.2%	6.6%	7.3%	-0.4%
Other Nikkei 225 co's (not included in the above; figures based on net income)							
	Sub-total:		32	0.1%	-2.4%	-1.5%	7.2%
		Electric Power & Gas	5	-4.6%	-0.5%	1.8%	10.2%
		Wholesale Trade	7	14.5%	-0.9%	-0.4%	6.5%
		Financials	20	-6.0%	-3.6%	-2.7%	7.1%
FX assumptions		JPY/ USD		110	110	110	
FX assumptions		JPY/ EUR		130	130	130	

Notes:

1. FY 2018 is from April 2018 to March 2019 and FY 2019 is from April 2019 to March 2020.
2. Consensus numbers are taken from the Japan Company Handbook published by Toyo Keizai Inc.
3. Where the consolidated parent co. and subsidary are both included in the Nikkei 225, we excluded the subsidary to avoid double accounting.
4. Each percentage is shown as compared with the corresponding period of a year earlier

Comments on the earnings forecast of major sectors for FY2019 are shown in Figure 2.

Figure 2. Comments on Earnings Forecast for FY2019 of the Major Sectors

Sector	Comments
Chemicals & Textile	The trend for positive earnings will continue. Increased sales volume in specialty chemicals, structural reform effects, the elimination of temporary expenses and an M&A effect will contribute positively.
Iron & Steel	Higher profits are expected due to progress in cost reduction and recovery in production shipment.
Non-ferrous Metals	Higher earnings are expected. Recovery of the smelting business will drive their profits.
Energy Resources	A slight increase in profit is expected, driven by a recovery in oil refining margins.
Auto & Transportation Equipment	Higher earnings are expected. Although auto sales will rise only slightly, the negative impact from higher material costs and increased incentives has peaked out.
Machinery	Positive earnings are expected as a result of contributions from shipbuilding plants and others. However, profit growth for companies engaged in machine tools and bearings is expected to decline.
Electrical Appliances	A steady increase in earnings is expected on the back of expanding vehicle installation-related businesses.
Glass & Ceramic Products	A break in earnings growth on carbon businesses will slow profit growth in the sector. The degree of penetration of domestic price increases is a key for cement companies.
Pharmaceuticals	Although we anticipate revised medical treatment fees arising from the consumption tax hike, higher earnings are expected, driven by sales of new drugs.
Retail	Higher earnings are expected as rising costs, such as personnel expenses and logistics costs, are absorbed by changes in expense structure due to structural reforms. The negative impact of the consumption tax on its earnings is expected to be offset by rushed demand.
Transportation & Logistics	Higher earnings are expected, as sales should recover following the natural disasters of 2018 and as higher fuel costs and other expenses will be passed on through freight charges.
Construction & Real Estate	Higher earnings are expected owing to improvement in profit margins in construction, higher rents and gains from property sales.
Information & Communication	A slight increase in earnings is expected. Profitability was revised down, as a large price reduction plan by major carriers is expected. The impact of a new entrant also put slight downward pressure on their earnings.
Wholesale Trade	A fall in earnings is expected. Despite steady earnings growth in non-resource businesses, lower commodity prices will weigh on their profit.
Financials	Lower profits are expected mainly due to further deterioration in market- related losses and higher credit costs amid limited potential for a rise in interest rate.

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