



Today's Theme



Japan

## Japanese Corporate Earnings



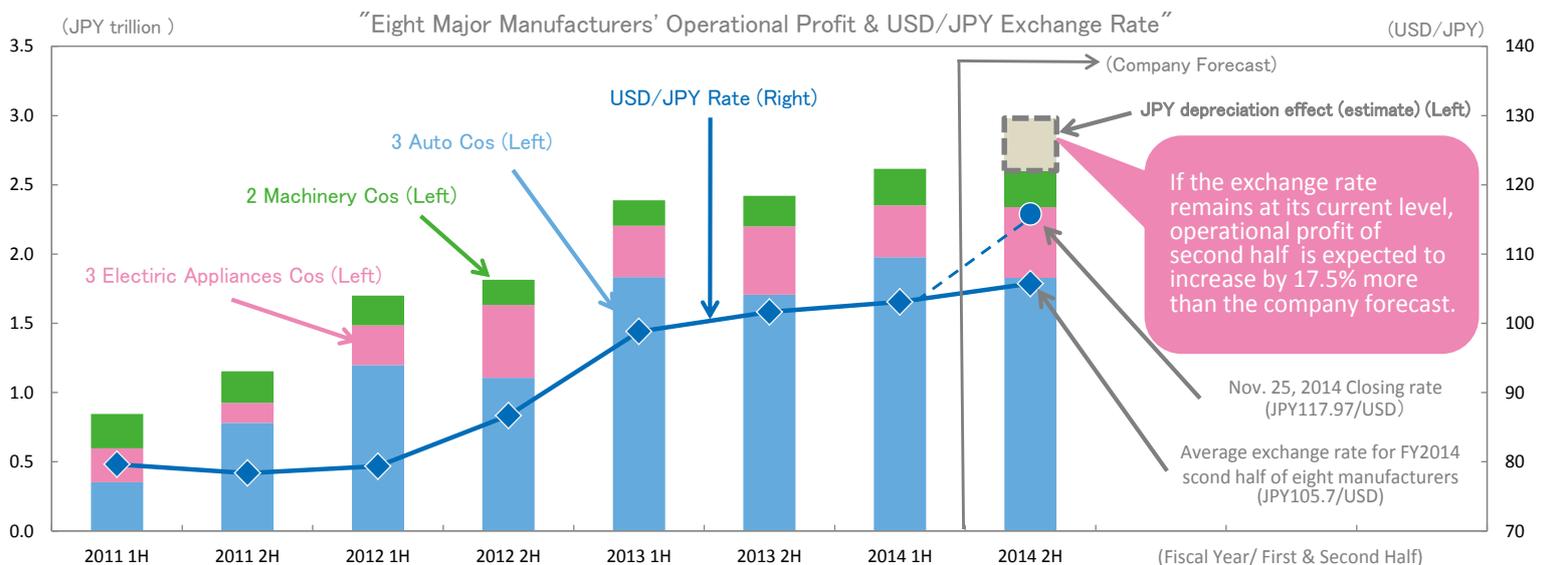
**How significant is the impact of recent JPY depreciation on the growth of Japanese manufacturers earnings ?**



**If USD/JPY rate keeps its current level toward the end of March next year, operational profit of the eight major Japanese manufacturers will be revised upward by 17.5%. It is anticipated that the sound earnings growth would continue toward next financial year on the back of global economic recovery.**

■ Operational profit of the eight major Japanese manufacturers (defined in Note of the chart below) in auto, machinery and electric appliances sectors for the 1H of FY2014 rose 9.5% y-o-y to approx. JPY2.6trillion. The average USD/JPY rate for the 1H was 103 yen, 4 yen depreciation compared to the level for the 1H of previous year. The contribution of the JPY depreciation to the increase of the operational profit accounts for almost half of the increase.

■ The average USD/JPY FX rate used by the eight major manufacturers for their 2H of FY2014 earnings guidance is 105.7 yen, deviating significantly from the current rate of 118 yen or around. If the exchange rate keeps its current level, the 2H operational profit of the manufacturers is estimated to expand by 17.5%.



- (Note)
1. Data from FY 2011 1H to FY 2014 2H. Profit figures from FY 2011 to 1H of 2014 are actual data, and profit for the 2H of FY 2014 is on the companies' budgets. 1H means April to September, 2H is October to March next year.
  2. The USD/JPY FX rates are average rates for each half year.
  3. The eight major manufacturers are Toyota Motor, Honda Motor and Nissan Motor in the Auto sector, Hitachi, Panasonic and Sony in the Electric Appliances sector, Fanuc and Komatsu in the Machinery sector. The operational profit of the eight major manufacturers accounts for almost 30% of the total profit of top 30 listed companies listed on the Tokyo Stock Exchange in terms of market capitalisation.
  4. The JPY depreciation effect on the operational profit for the 2H of FY2014 is estimated by SMAM. The estimation was calculated based on the difference of USD/JPY FX rate used for the companies' budgets for the 2H of FY 2014 and that of the closing rate on the Nov. 25, 2014 and the estimated exchange rate sensitivity of the eight respective companies.
  5. Individual company names are indicated, however, it is not intended for any recommendations of those companies.
- (Source) SMAM, based on Bloomberg L.P. data and publicly available financial data of the companies.



## Outlook

### Rising expectation for the corporate earnings' upward revision in this FY due to the weakened yen and on moderate recovery of the global economy toward next FY.

- Throughout FY2014, the improvement in corporate earnings are expected due to the weakened yen and cost saving measures by each company. We expect the trend of the upward revision of the corporate earnings' growth will continue after FY2015 as well, as the moderate recovery of global economy and further weakening of yen due to divergence of monetary policy of the US and Japan can be expected.
- While the Japanese stock market has surged since the announcement of surprising monetary easing by the Bank of Japan on 31 October, the stock market is expected to keep performing well on a solid tone for mid-and-long term, based on the expected corporate earnings' upward revision due to the weakening yen and the relatively attractive valuation compared to other major stock markets.

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