

Japanese corporates' Apr. - Sep. 2016 financial results
 ~ Listing up points of focus

- Focus should be on impact of JPY appreciation on business results of manufacturing companies such as exporters. Stock prices may possibly rise despite profit decrease due to JPY appreciation.
- Need to watch carefully how natural resources' price rise and temporary suppression of tourists' explosive buying would affect business results of related industries.
- Japanese equity is likely to rise further due to (i) discount of negative business results by market, (ii) stabilization of currency market after the US presidential election and (iii) recognition of attractiveness of Japanese equity investment by foreign investors.

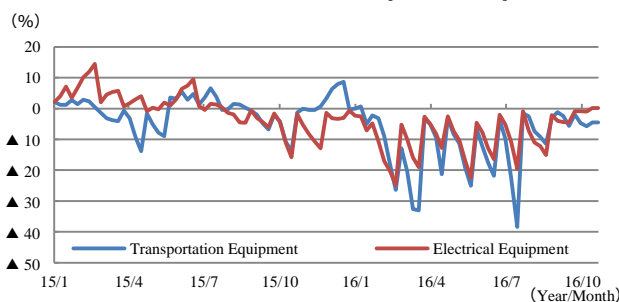
Focus should be on impact of JPY appreciation on business results of manufacturing companies such as exporters. Stock prices may possibly rise despite profit decrease due to JPY appreciation

This week will be the start of peak season of business results announcement (Apr.-Sep. 2016) by listed companies. Yasukawa Electric * announced its business results of Apr.-Sep. 2016 ahead of other exporters on 20th last week, whose revenue and profit declined due to JPY appreciation. Market was focusing on its announcement in order to estimate major exporters' business results. Yasukawa Electric's share price, however, rose sharply next day as profit was (i) not as bad as company's initial business plan and (ii) better than analysts' forecasts.

We believe that one of the focus points on Apr.-Sep. 2016 business results would be impact of JPY appreciation mainly on exporters of manufacturing companies (Chart 1). However, even if profit may decline by the stronger yen, you may be able to pick up a company whose share prices rise, like Yasukawa Electric, by seeing whether (i) profit decline is within company's expectation, (ii) sales are growing steadily, (iii) FY2016 earnings forecast will be revised and (iv) exchange rate assumption will be changed.

* Although particular name of the company is mentioned, it is not intended for recommendation of the company.

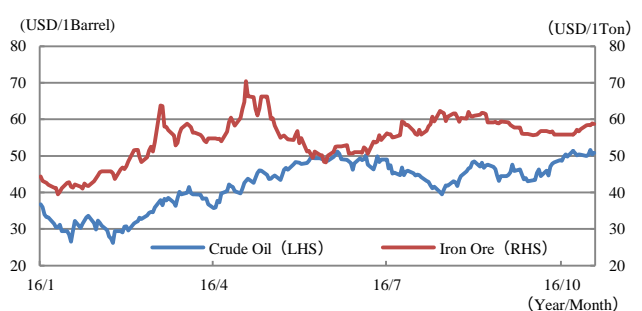
“Chart 1: Revision Index of Japanese Exporter”



(Note) Data period is from 2nd January 2015 to 21st October 2016. Earnings revision of companies comprising Transportation and Electric Appliances of 33 sectors of TOPIX. If ratio of number of companies revised upward is larger, figure will be large, while that revised downward is larger, figure will be small.

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

“Chart 2 : Natural Resources' Price Trend”



(Note) Data period is from 4th January 2016 to 21st October 2016. Crude oil price is based on WTI Crude Oil Futures and Iron ore price is based on Iron Ore 62% Fe (TSI).

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

Need to watch carefully how natural resources' price rise and temporary suppression of tourists' explosive buying would affect business results of related industries

Recently, prices of natural resources such as crude oil and iron ore are steady as a whole (Chart 2). In general, rise of natural resources' price is deemed to be positive to the business results of sectors such as Mining, Oil & Coal Products, Iron & Steel and Wholesale Trade (Trading Companies). However, for these sectors, we believe that business results forecast will show a cautious tone taking into account of uncertainty over natural resources' price as most of these sectors' business results of Apr.-Jun. 2016 was disappointing affected by declining prices.

Meanwhile, it is reported that "explosive buying" by the Chinese tourists visiting Japan is stalled due to (i) Chinese government's hike of tariffs on private imports and (ii) strengthening JPY. Temporary suppression of big-ticket items' consumption will possibly continue to negatively affect business results of Retail Trades sector (department store), however, continuity of double digit increase (YoY) of foreign visitors will likely be a positive to Hotel, Transportation and Eat-out industries.

Japanese equity is likely to rise further due to (i) discount of negative business results by market, (ii) stabilization of currency market after the US presidential election and (iii) recognition of attractiveness of Japanese equity investment by foreign investors

It is possible that equity prices will be ready to rise as market will discount negative business results if the impact of JPY appreciation and natural resources' price to the upcoming Apr.-Sep. 2016 business results is within the expectation of market. However, we think that investors will possibly maintain their cautious stance until the result of the US presidential election comes out on 8th November 2016. If that's the case, the Japanese equity market will be driven by individual stock picking for the time being.

Recurring profit forecast of 221 Japanese companies under our own research universe (SMAM's Core Research Universe) for FY2016 and FY2017 are - 1.6% and + 11.3% respectively (both YoY) based on assumption for USD/JPY rate of 100 and EUR/JPY rate of 115. Foreign investors are expected to return to the Japanese equity market if (i) disappointing news of Apr.-Sep. 2016 business result is within the expectation and (ii) currency market stabilizes after the US presidential election. Currently, we forecast Nikkei 225 index to be around 17,800 yen by the end of December 2016 and around 18,000 yen by the end of March 2017.

*** Please note that this report is a translation of Japanese report written on 24th October, 2016.**

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