



Today's Theme



Japan

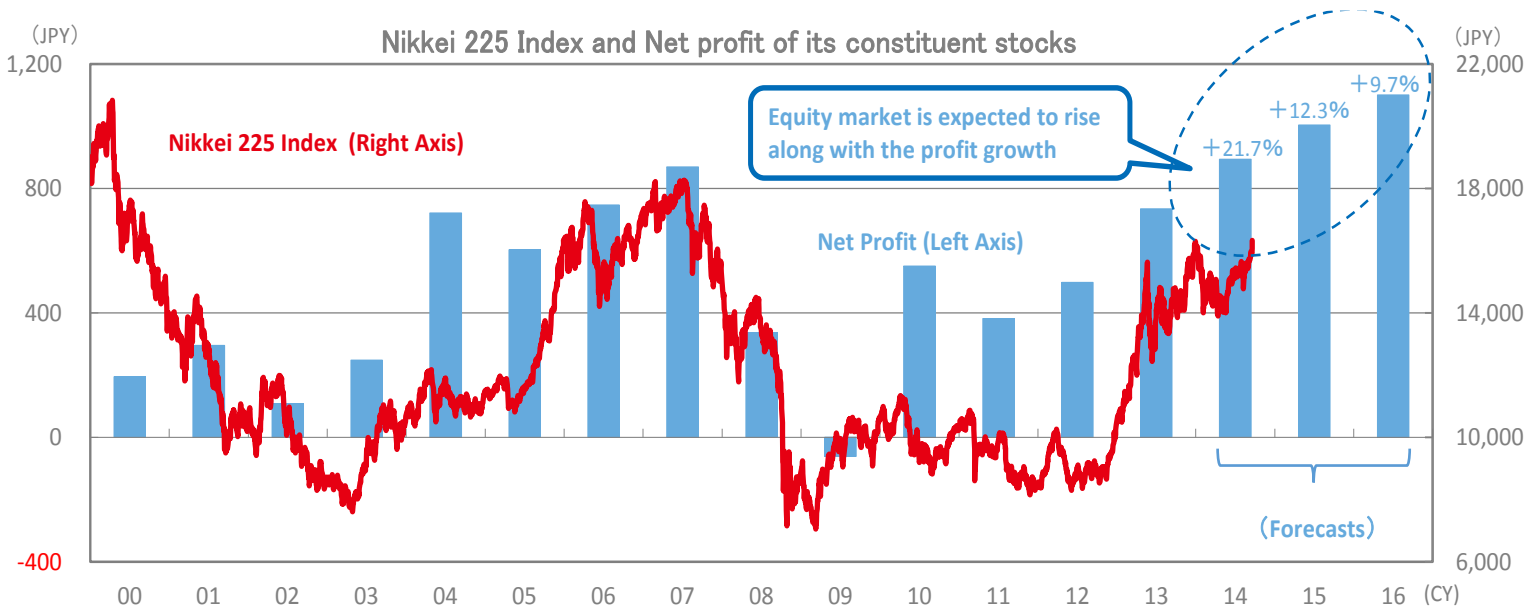
## Japanese Equity Market (Series 1 / 3)

### Q Will Strong Corporate Earnings Growth be Sustainable?

**A** YES. Growth trend is expected to continue supported by the global economic recovery and JPY depreciation. In CY2014, the corporate earnings likely to surpass the highest, marked before the Global Financial Crisis (GFS) and will grow further after CY2015.

■ Net profit of companies comprising Nikkei 225 Index (225 companies) grew significantly by 47.5% in CY2013. Reasons for this strong earnings growth were reduction of fixed cost through effort of business streamlining, progress of JPY depreciation and recovery of both Japanese and global economies.

■ According to the Bloomberg forecast, CY2014 net profit would grow by 21.7%, marginally beyond 2007 level recorded just before the GFS, and is expected to renew the historical high. This will be materialized by improvement in the export profitability on JPY depreciation and earnings expansion through M&A's.



(Note) Net profit: Net profit per share of the Nikkei 225 Index constituent companies between CY2000 and CY2016 on annual basis. CY2014 to CY2016 are the forecast of Bloomberg L.P. Percentage figure indicates the earnings growth ratio (y-o-y) of net profit. This analysis covers all Nikkei 225 component stocks, not SMAM research universe. Data period of the Nikkei 225 Index is from Jan. 4, 2000 to September 19, 2014 on daily basis.

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

### Outlook JPY depreciation is a tailwind for earnings growth and the equity market

■ Current acceleration of JPY depreciation is functioning as a tailwind for earnings growth of export orientated corporations in Japan. JPY is expected to be under a continuous weakening pressure in the market due to the difference in direction of monetary policy of FRB and Bank of Japan. It is widely estimated that 5 yen depreciation in JPY has an effect of increasing 2 to 3 % profit of Japanese corporations on average.

■ The Nikkei 225 Index broke the historical high since Abe administration was formed on September 19, supported by the US equity market rally and JPY depreciation. We expect the Japanese equity market to remain showing a steady tone with the expectation of upward revision of the corporate earnings on JPY depreciation, relative cheapness in stock valuation as a laggard compared to the other major markets.



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