

Japan Equity Outlook for 2010:

Ready to outperform global equities

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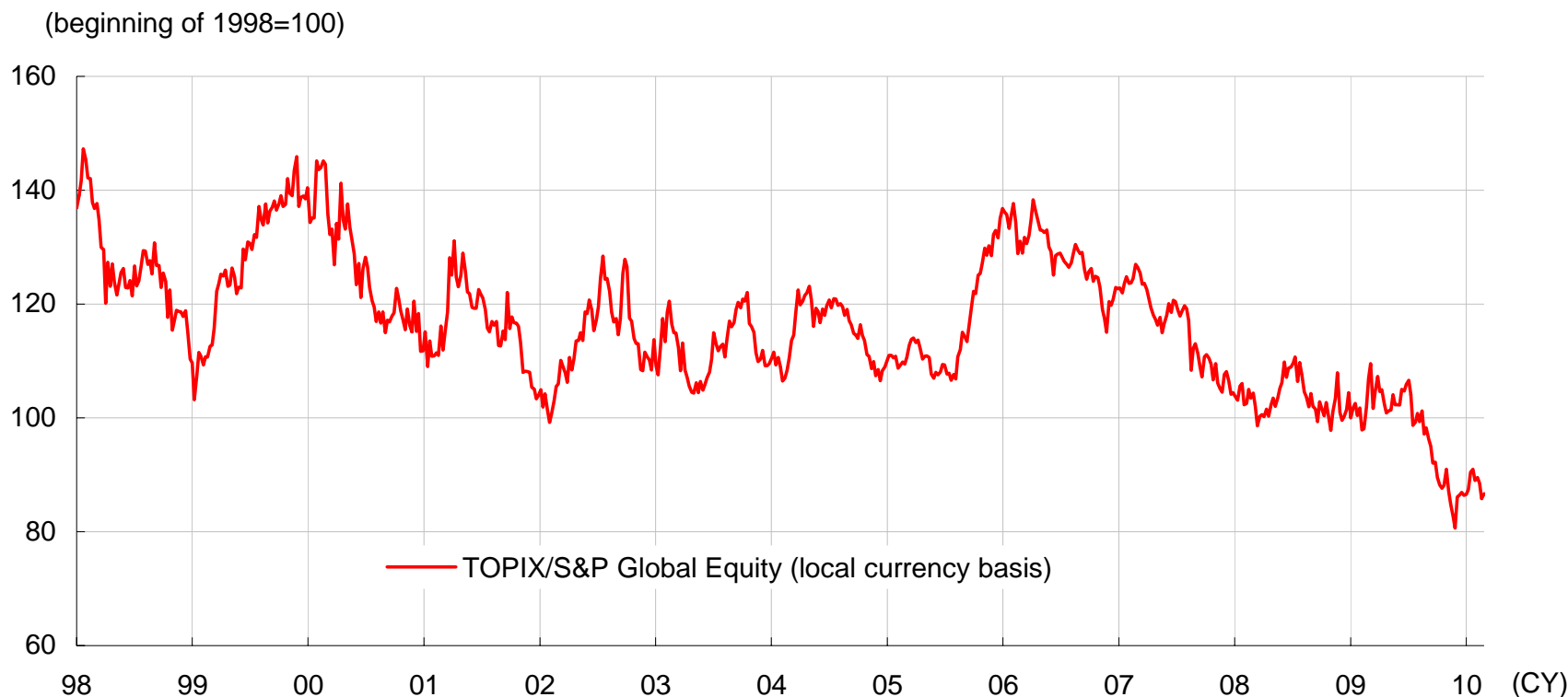
Financial & Economic Research Center

March 2010

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“Japan vs global equities” appears bottoming

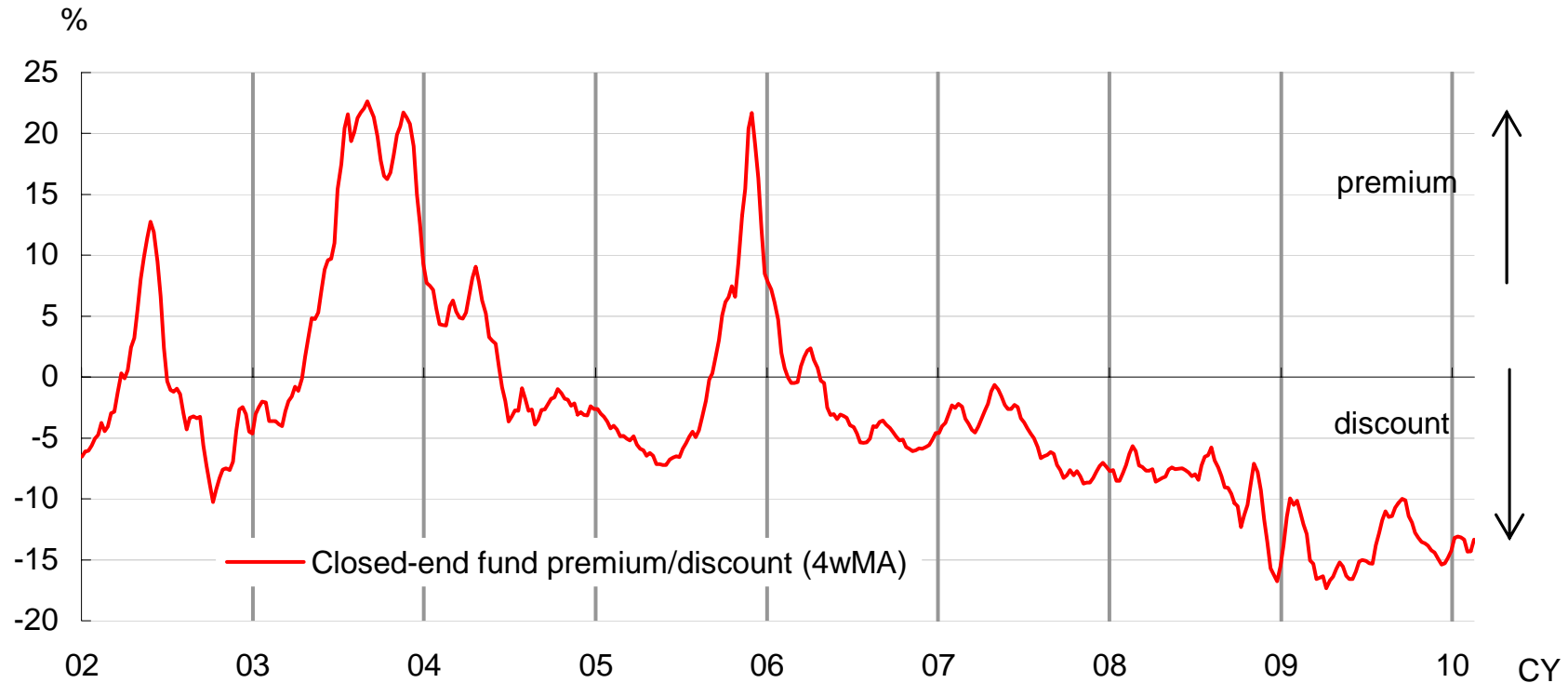
TOPIX/S&P global equity index (local currency basis)



Note: as of February 26. Source: Nomura, based on S&P and TSE

Japan discount also appears bottoming

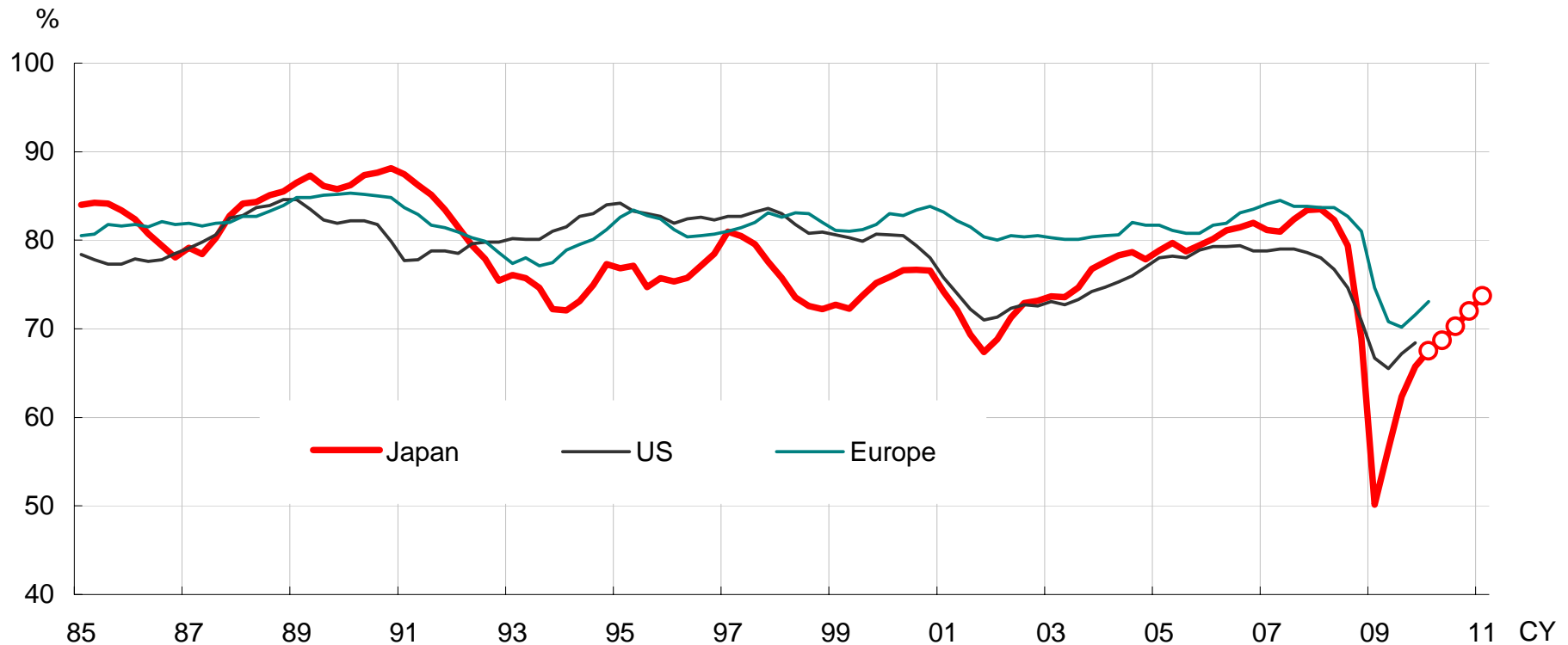
Closed-end fund discount of “Japan-equity fund”



Note: as of February 19. Source: Nomura, based on TSE and Bloomberg

Japan is extremely sensitive to the global cycle

Capacity utilization rate



Note: Japan's Data for FY2010 1Q and beyond are Nomura forecasts.

Source: Nomura, based on Fed, Eurostat, and METI data

Japan's micro growth should outperform in 2010-11

Global earnings forecasts (EPS growth)

(% over a year ago)

	2009	2010	2011
US ¹	21.0	30.0	25.0
Europe ex-UK	-21.0	20.0	13.0
UK	-38.0	28.0	11.0
Asia ex-Japan	5.2	14.6	17.0
Japan ²	-58.5	140.0	50.0
Emerging Markets	-6.7	23.7	19.0
Global ³	-3.2	23.9	19.5

EPS forecasts

S&P Operating EPS (\$)	60.0	78.0	97.5
TOPIX (Yen)	18.0	44.0	66.0

Note: 1. S&P 500 Operating Earnings

2. TOPIX

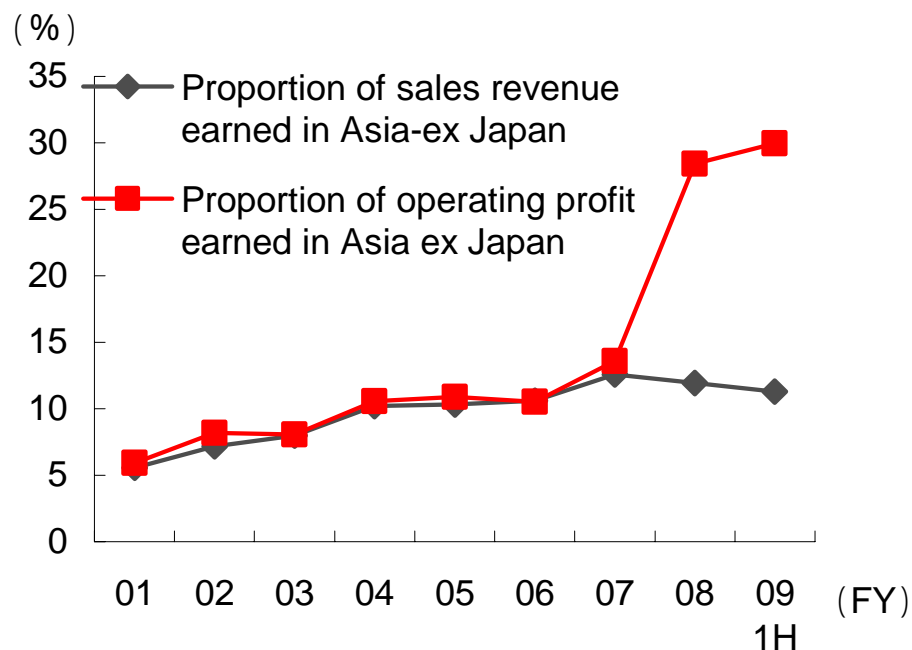
3. FTSE AW World Index, earnings pre-extraordinary items

4. As of 26 Feb.

Source: Nomura Strategy estimates

Japan takes advantage of Asian growth

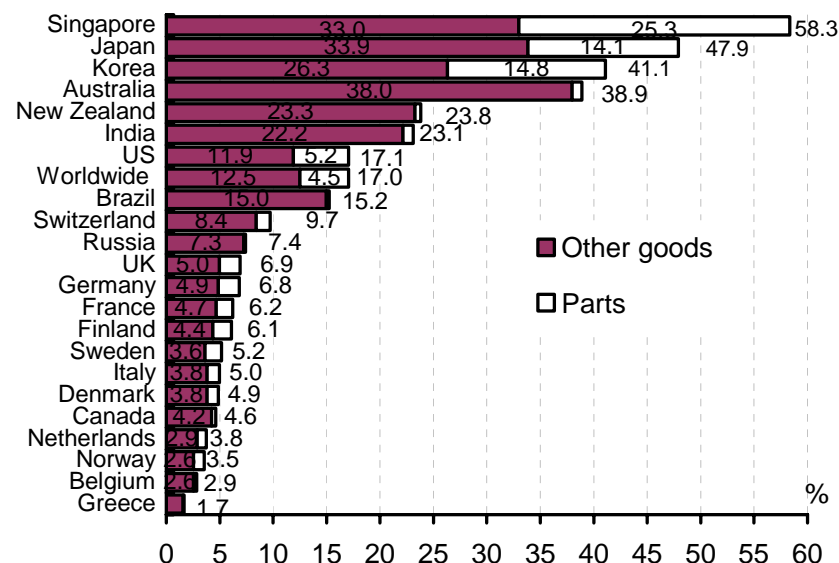
Major Japanese companies' exposure in Asia ex-Japan



Note: Universe is NOMURA400 excluding financials.

Source: Nomura

Exports to Asia as a percentage of total exports

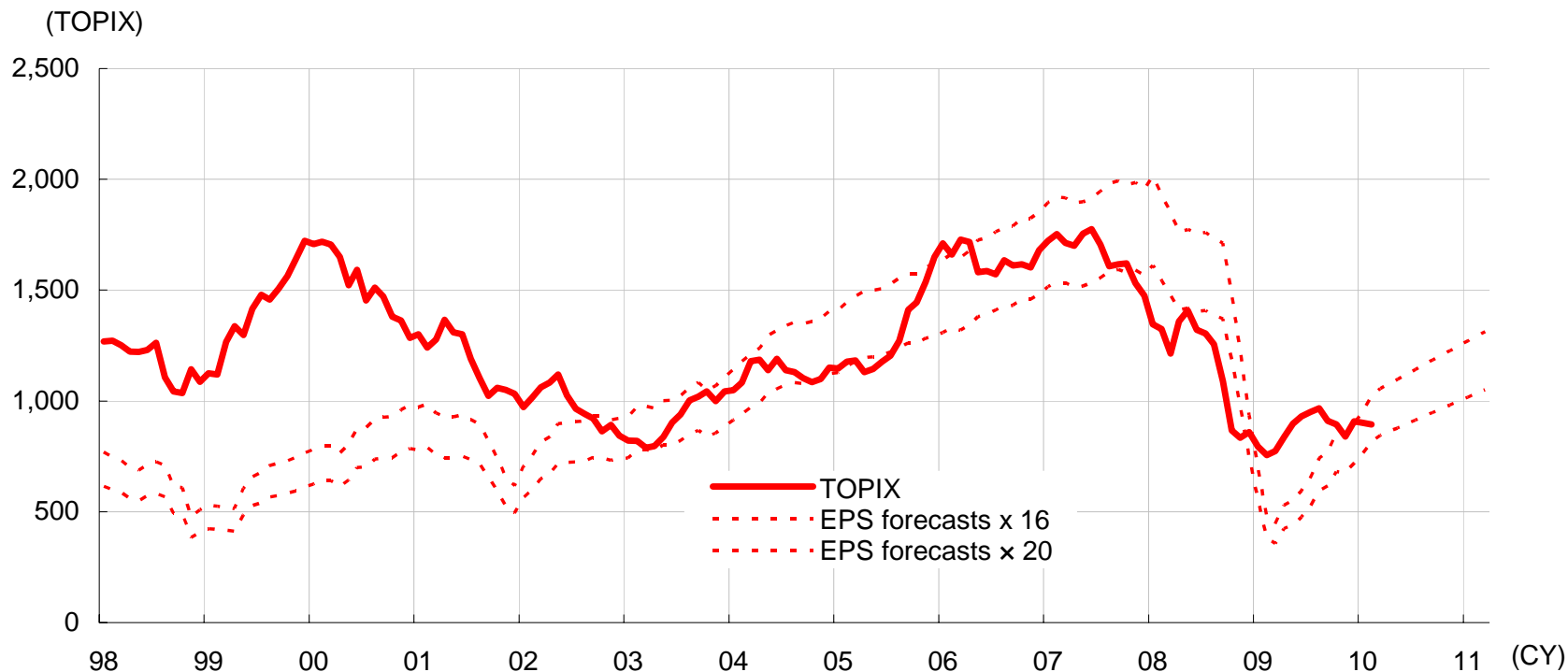


Note: (1) Shows exports to Asia as percentage of total exports. (2) Asia is total of China (including Hong Kong), NIEs3, and Southeast Asia. (3) 2008 data used for all countries except Korea; 2007 data used for Korea. (4) Nomura classifications for parts

Source: Nomura, based on UN data.

“Re-evaluation of Japan” as in 2003 or 05 may happen

TOPIX and 12-month forward EPS 16x and 20x

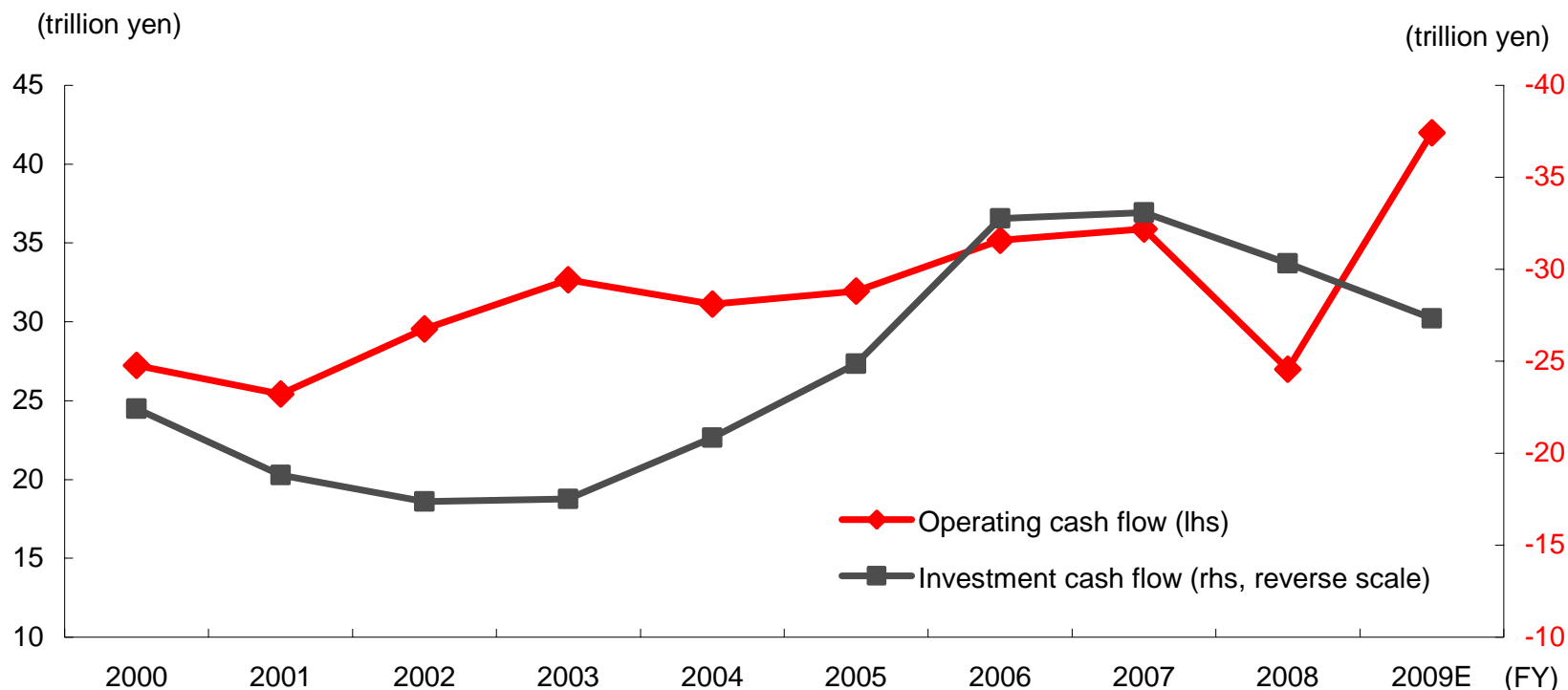


Note: Bottom-up 12-month prospective EPS projections are Nomura estimates, supplemented by Toyo Keizai forecasts when no Nomura estimates are available. As of February 26.

Source: Nomura, based on Toyo Keizai data

A typical “early expansion” as in FY2002-03

Aggregate operating and investment cash flow for
988 major non-financial Japanese companies

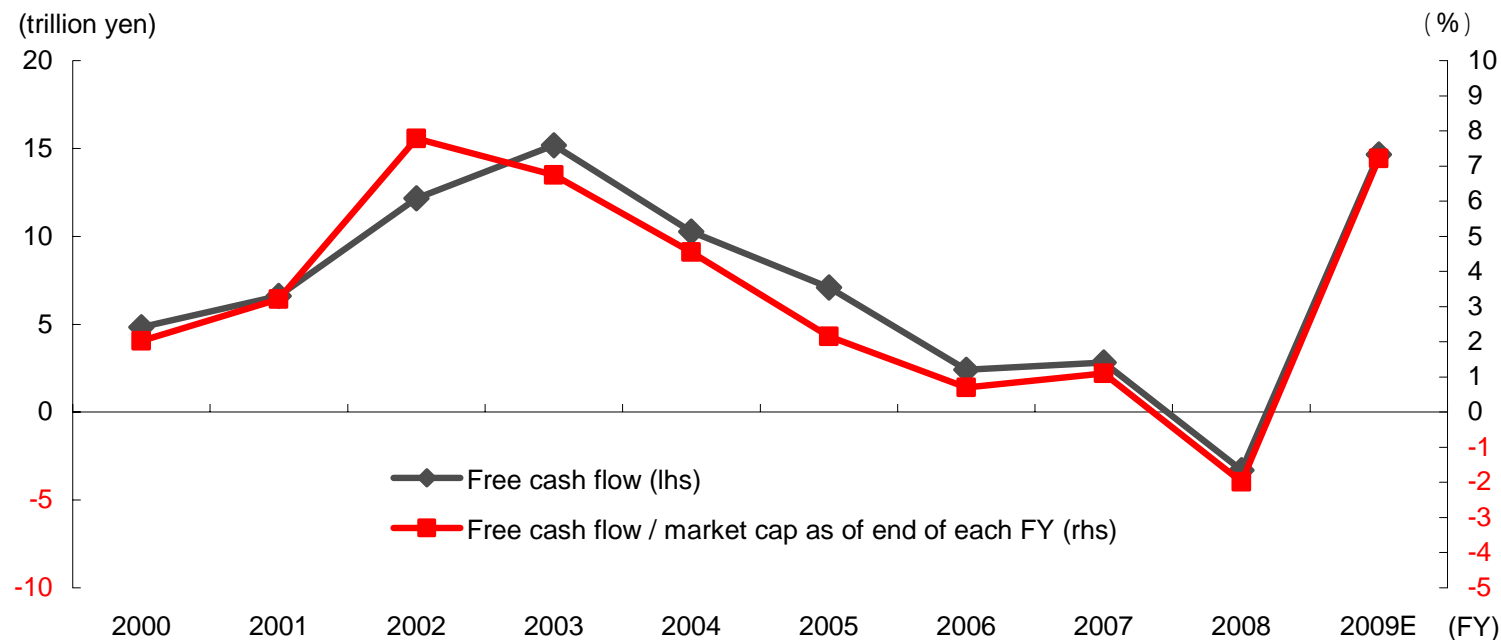


Note: Aggregated data for 988 non-financial Japanese companies that are TSE1 listed since FY2000. As of 16 Feb.

Source: Nomura, based on company materials

FY09 free cash flow is 7% of market cap

Free cash flow and free cash flow/market cap (988 non-financial companies)



Note1: Aggregated data for 988 non-financial Japanese companies that are TSE1 listed since FY2000.

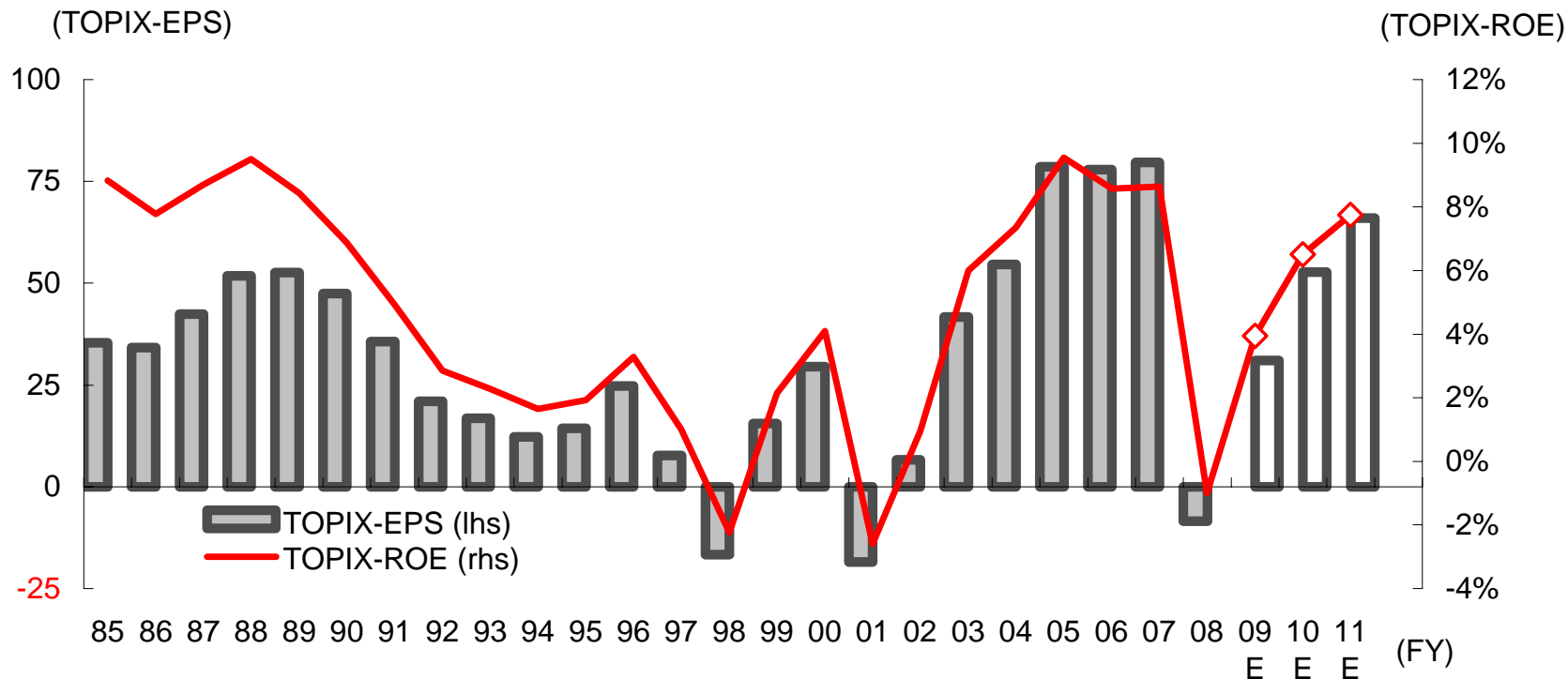
Note2: Free cash flow = operating cash flow + investment cash flow.

Note3: As of 16 Feb.

Source: Nomura, based on company materials

ROE is expected to get back to 8% in FY2011

TOPIX EPS and ROE forecasts

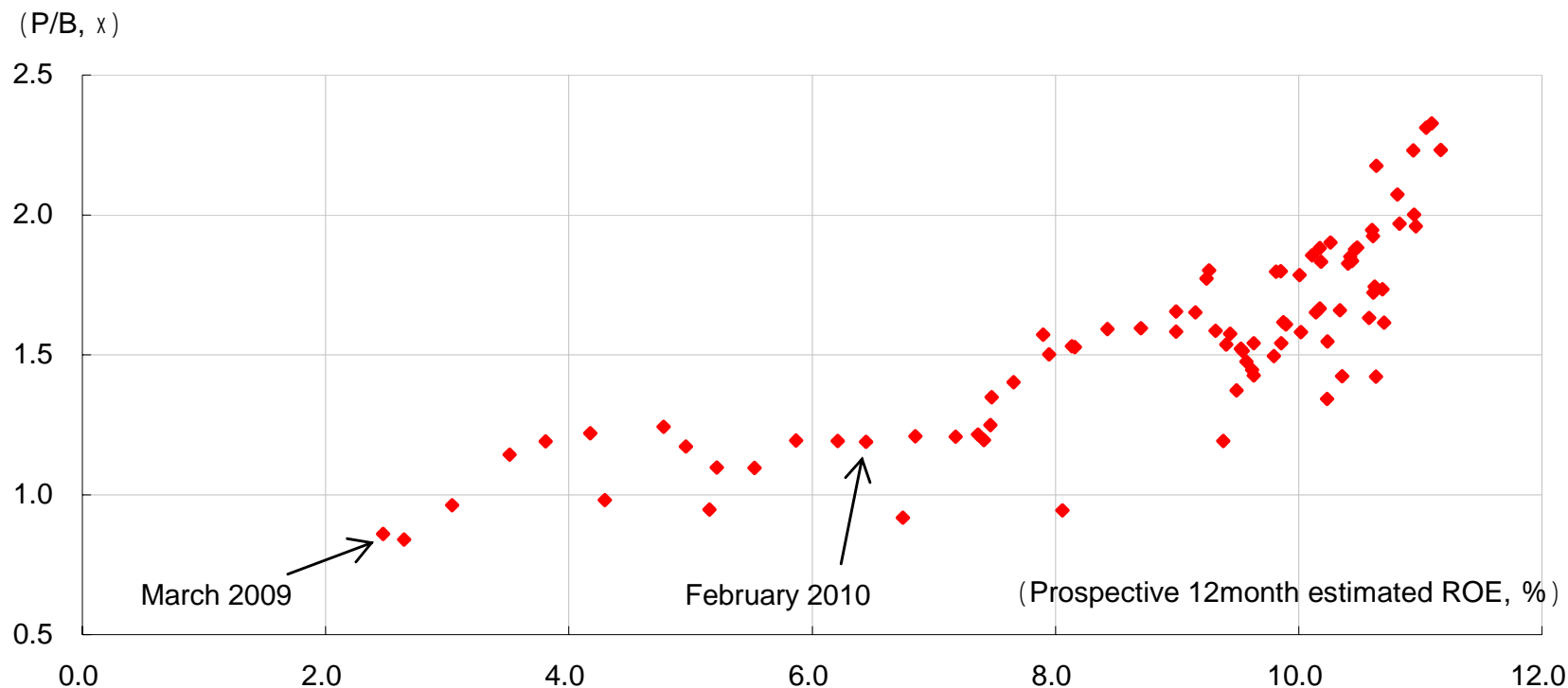


Note: FY09 and FY10 are bottom-up earnings by Nomura, supplement by Toyo Keizai forecasts when no Nomura estimate are available. FY11 is top-down earnings estimate. As of 26 Feb.

Source: Nomura, based on Toyo Keizai data.

Approaching a “tipping point” of market P/B

P/B of TOPIX and prospective ROE

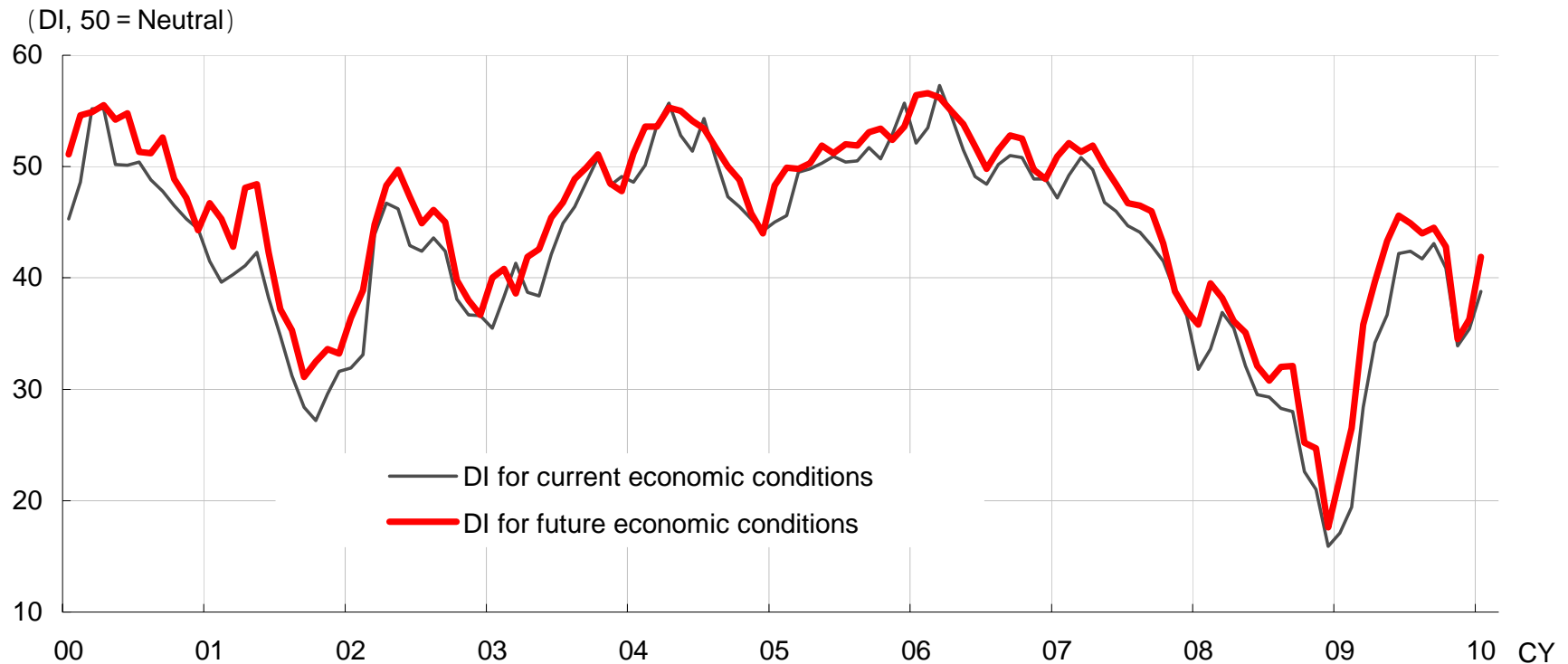


Note: Prospective ROE=prospective EPS(12-month forecast)/actual BPS. Prospective EPS based on Nomura estimates, supplemented with Toyo Keizai data. Sample period is January 2003 through February 2010.

Source: Nomura, from Toyo Keizai data

Domestic economy corrected in 2009 H2

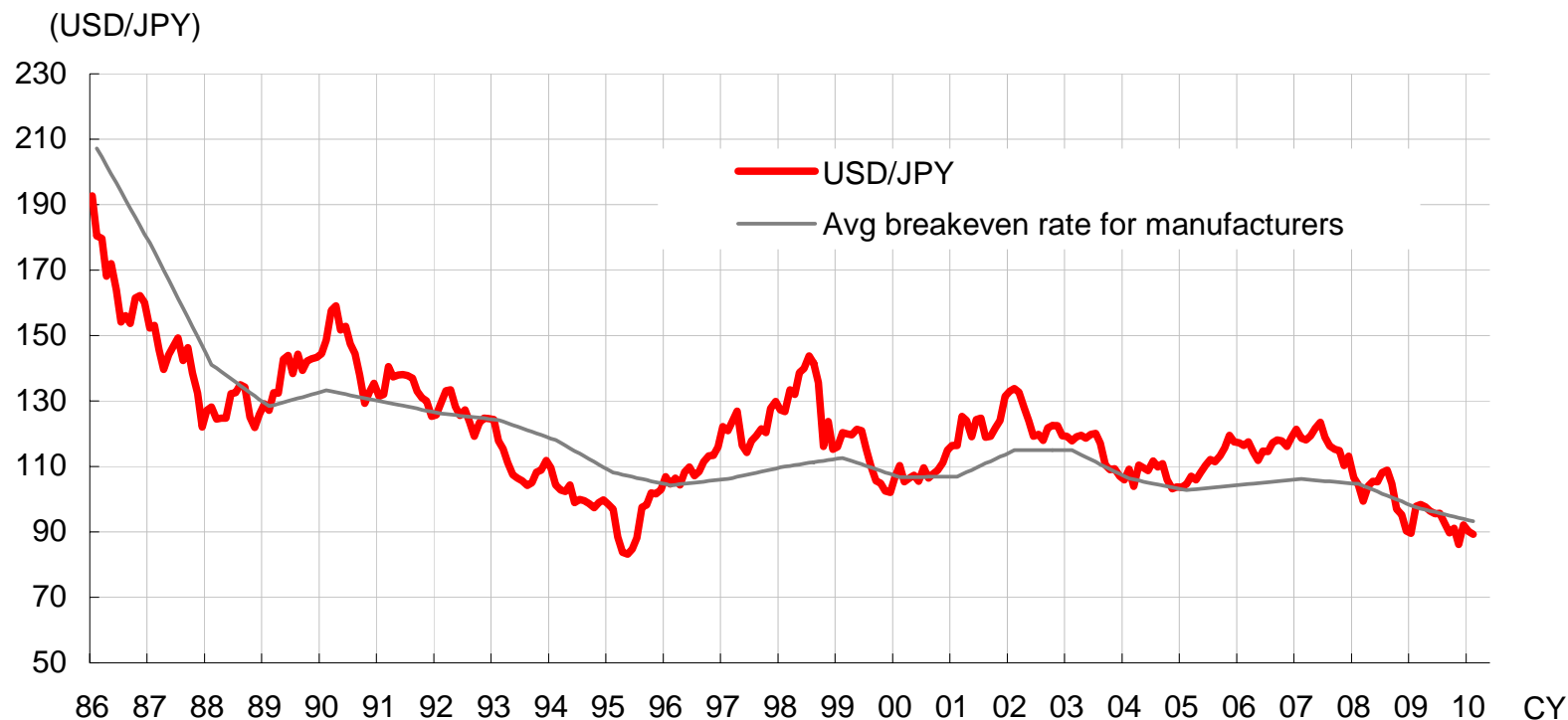
The Economy Watchers Survey



Note: as of Jan 2010. Source: Cabinet Office

The yen is likely overvalued

The dollar/yen rate and the breakeven exchange rate for manufacturers



Note: The average breakeven rate for manufacturers is a linear interpolation based on fixed points from the Annual Survey of Corporate Behavior conducted every year in Jan–Feb. Data are as of Feb 2010.

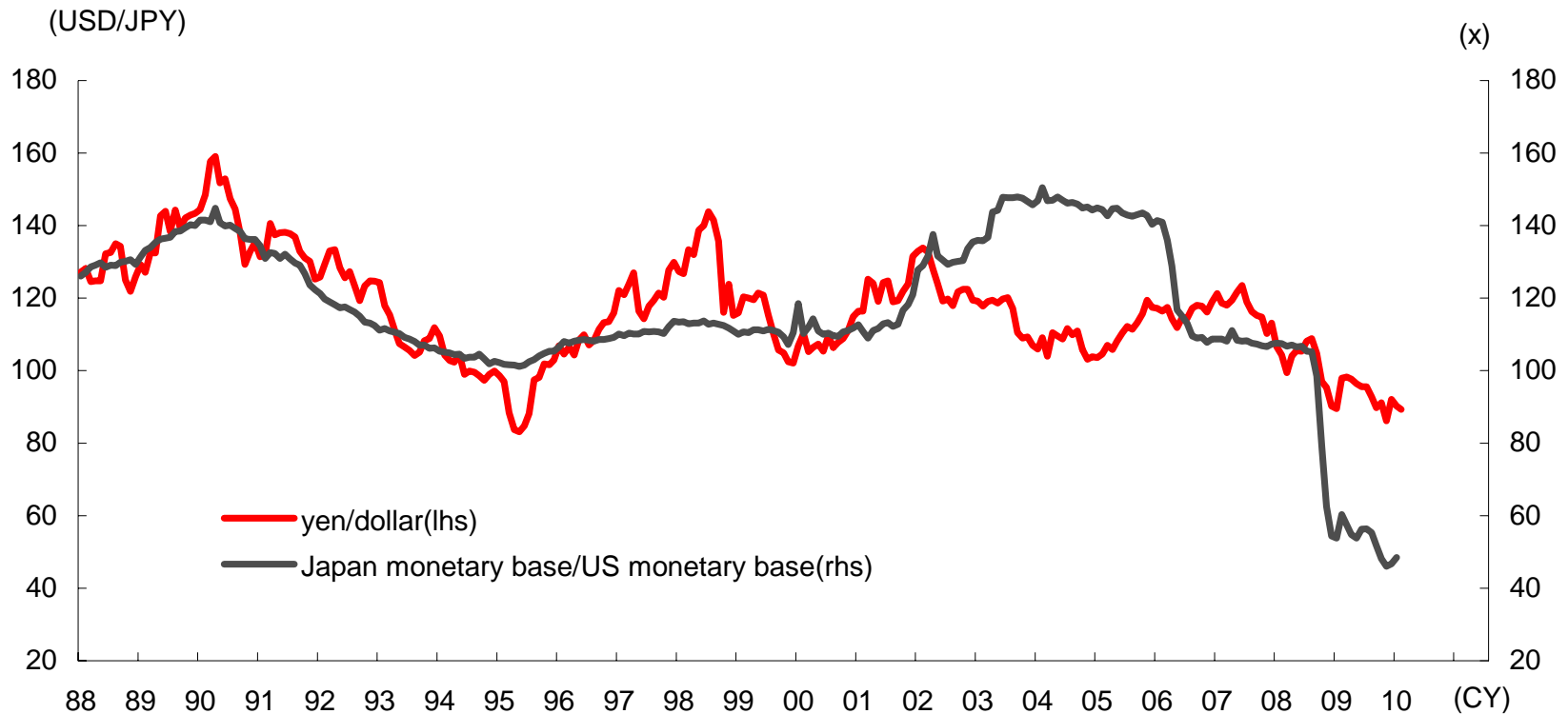
Source: Nomura, based on Cabinet Office and BOJ data

Dubai shock awakened the Japanese government

- The Japanese government declared that the economy is in deflation (November 20, 2009)
 - The government pressed the BOJ to be more aggressive about tackling declining prices.
- “Dubai shock” led the government and BOJ to take fiscal and monetary policy measures (early December)
 - The BOJ announced a new 3-month funding operation.
 - The government agreed on a \$81 billion stimulus package.
- The BOJ reinforced its commitment not to tolerate zero inflation or falling prices (December 18).

Monetary policy matters for FX

The dollar/yen rate and Japan monetary base/US monetary base ratio



Note: As of Feb 2010. Source: FRB, BOJ, and Nomura

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