

Nomura Holdings (8604)

Results impression: Raise Nomura's PO on positive earnings

Reiterate Rating: BUY | PO: 950 JPY | Price: 769 JPY

Nomura's results a positive surprise; raise price objective

3Q FY3/24 (Oct-Dec) results: The three main segments did better than we expected, with PBT (profit before tax) of ¥70.5bn (+58% YoY, +17% QoQ; our estimate ¥67.1bn), consolidated NP of ¥50.6bn (-24% YoY, reflecting an absence of gains on sale of stakes in affiliates; +43% QoQ; our estimate ¥40.8bn), and EPS of ¥16.7 (-25% YoY, +44% QoQ). Momentum in the core businesses is on a clear uptrend, even given the contribution from one-time valuation gains/losses. Quarterly ROE (annualized) improved substantially to 6.2% (versus 0.9% in 4Q FY3/23, 2.9% in 1Q, and 4.3% in 2Q). In addition, management announced a share buyback that was a positive surprise in terms of both timing and scale (up to ¥100bn worth or 125mn shares [4.0% of the total outstanding]; from 16 February to 30 September).

We think Nomura is at a turning point at which two catalysts behind our Buy rating are playing out: 1) Nomura's benefiting from directional changes in global and Japanese financial markets and 2) room for increase in shareholder payouts with ¥300-500bn in surplus capital. We raise our price objective for Nomura from ¥850 (ADR US\$5.73) to ¥950 (ADR US\$6.43; based on our FY3/24-26 weighted average EPS estimate of ¥65.9 times a multiple of 14.5x). We reiterate our Buy rating.

FAQ: Changes in client activity with launch of new NISA

Nomura's management noted in a conference call that NISA purchases in the first three weeks of January exceeded one third of the total in 2023. High stock prices have led to some profit-taking, but there has been a clear turnaround in individual investors' activity. We still think Nomura, which has a large amount of assets under management, has relative advantages in its investment management business.

Estimates (¥)	3/22A	3/23A	3/24E	3/25E	3/26E
	Other GAAP	Other GAAP	Other GAAP	Other GAAP	Other GAAP
EPS	45.23	29.74	48.11	65.80	72.01
EPS Change (YoY)	-7.0%	-34.2%	61.8%	36.8%	9.4%
Dividend / Share	22	17	25	34	37
BPS	965.8	1,048.2	1,105.8	1,167.6	1,234.5
Valuation					
P/E	17.0x	25.9x	16.0x	11.7x	10.7x
Dividend Yield*	2.9%	2.2%	3.3%	4.4%	4.8%
P/B	0.8x	0.7x	0.7x	0.7x	0.6x

* For full definitions of *IQmethod*SM measures, see page 5.

31 January 2024

Equity

Key Changes

(¥)	Previous	Current
Price Obj.	850.00	950.00

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Stock Data

Price (Common / ADR)	769 JPY / 5.21 USD
Price Objective	950 JPY / 6.43 USD
Date Established	31-Jan-2024/ 31-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	477-770 JPY
Market Value (mn)	2,768,247 JPY
Market Value (\$mn)	18,724 USD
Shares Outstanding (mn)	3,598.9
Average Daily Value (\$mn)	88.2 USD
Free Float	79.8%
BofA Ticker / Exchange	NRSCF / TYO
BofA Ticker / Exchange	NMR / NYS
Bloomberg / Reuters	8604 JP / 8604.T
ROE (2024E)	4.7%
Net Dbt to Eqty (Mar-2023A)	NA

Exhibit 1: PO change

Investment rating and PO (¥, US\$)

Ticker	Name	Rating	PO	Exp. return
8604	Nomura	Buy	950↑ (Prev.850)	27%
NMR	Nomura	Buy,	6.43↑ (Prev.5.73)	27%

Source: BofA Global Research estimates. Green: Upward revision. Expected return includes FY3/24 DPS (BofAe).

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM Nomura Holdings (8604)

Key Income Statement Data	3/22A	3/23A	3/24E	3/25E	3/26E
(¥ Billion)					
Commissions	332	280	355	398	419
Fees from investment banking	150	113	159	171	194
Asset management and portfolio service fees	270	272	308	333	355
Net interest income	54	(36)	7	7	7
Net operating revenue	1,364	1,336	1,513	1,659	1,707
S,G & A	(1,137)	(1,186)	(1,265)	(1,325)	(1,344)
Income Before Taxes	227	149	248	334	363
Total income taxes	(80)	(58)	(94)	(125)	(136)
Net Profit	143	93	151	206	223
Fully Diluted Shares (mn)	3,162	3,120	3,142	3,124	3,100
Key Balance Sheet Data					
Trading Assets	15,231	17,510	23,275	21,022	19,521
Assets under repurchase agreements and securities lending transactions	16,876	18,117	21,770	21,770	21,770
Trading Liabilities	9,652	10,558	13,284	11,998	11,141
Liabilities under repurchase agreements and securities lending transactions	14,538	16,109	20,622	20,622	20,622
Deposits	1,761	2,138	2,403	2,403	2,403
Borrowings	10,308	11,408	12,507	12,507	12,507
Shareholder's equity	2,915	3,149	3,333	3,498	3,672
Total Assets	43,412	47,772	56,999	55,879	55,195
Retail client assets (¥ tn)	122.1	122.2	140.4	144.1	148.4
Business Performance					
EPS	45.2	29.7	48.1	65.8	72.0
ROE	5.1%	3.1%	4.7%	6.0%	6.2%
ROA	0.3%	0.2%	0.3%	0.4%	0.4%
Dividend Payout Ratio	46.0%	55.8%	48.9%	49.0%	48.7%
Quality of Earnings					
Tax Rate	35.3%	38.7%	37.7%	37.5%	37.5%
Gross leverage	14.9x	15.2x	17.2x	15.9x	14.8x
Net leverage	9.1x	9.4x	10.7x	9.9x	9.2x
CET1 ratio	17.2%	16.2%	16.2%	16.3%	16.9%

Company Sector

Securities Broker/Dealer

Company Description

Nomura is Japan's largest brokerage/investment bank. The group includes Nomura Securities, the core brokerage/investment banking unit, Nomura Asset Mgmt, which handles the asset mgmt business, and Nomura Trust & Banking. The business segments are retail (incl. domestic brokerage for retail investors), wholesale (incl. domestic and overseas investment banking and trading), and investment mgmt (incl. domestic and overseas asset mgmt). Nomura doesn't disclose earnings forecasts.

Investment Rationale

Buy: (1) Full-scale operations of the retail business, which has lagged competitor's, and the emergence of deals exceeding US\$1bn, the main area of structural changes affecting Japan's capital markets and a main focus of Nomura, can be expected. (2) FICC-driven growth in trading revenues can be expected as global FICC markets turn around. (3) Given the ¥300-500bn in surplus capital the company is likely to generate over the next three years, we expect some upside leeway for shareholder payouts.

Stock Data

Key Changes

(US\$)	Previous	Current
Price Obj.	5.73	6.43

Details of Nomura's results by segment

(i) Retail: Profit before tax (PBT) totaled ¥31.9bn (2.4x YoY, +10% QoQ), slightly above our assumption (¥30.2bn). The QoQ increase rate exceeded that of Daiwa's retail segment. We particularly highlight the contribution of a deal involving Toyota Group cross-shareholdings to the retail segment's result. The number of flow business clients increased 15% YoY, and stock assets rose to ¥21tn (+4% QoQ). (ii) Wholesale: PBT totaled ¥23bn (+¥24.9bn YoY, +¥14.7bn QoQ), above our assumption (¥20.2bn). The cost-to-income ratio improved QoQ (by 6.5ppt to 89.4%) thanks to successful cost management and revenue growth from strong Fixed Income Clearing Corporation (FICC) business. (iii) Investment management: PBT totaled ¥15.6bn (-53% YoY, -33% QoQ), slightly below our assumption (¥16.6bn). The YoY and QoQ decline reflected a decrease in investment income (including gains on the American Century Investments stake) to ¥5.6bn. Business revenue remained strong (¥33.3bn in 3Q), and assets under management rose to ¥78.5tn (+3% QoQ). The number of Nippon Individual Savings Accounts (NISA) opened increased QoQ (+17,000 in 2Q, +59,000 in 3Q; cumulative total about 1.76mn).

Exhibit 2: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg Ticker	Company Name	Price	Ratings
NRSCF	8604.JT	Nomura Holdings	¥743.2	B-1-7
NMR	NMR.US	Nomura Holdings	\$5.21	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Nomura Holdings (8604 / NRSCF / NMR)

Our price objective of ¥950 (ADR \$6.43) is based on our FY3/24-26 weighted average EPS estimate of ¥65.9 (FY3/24: 20%, FY3/25: 60%, FY3/26: 20%) times a multiple of 14.5x. This multiple is 3.5SD above the five-year average 12-month forward P/E of 8.8x, a premium we consider appropriate given the prospects for profit improvement and increases in shareholder payouts over the next three years (when the average ROE is likely to be 5.9%, versus 3.7% over the past five years).

Upside risks: (1) Larger-than-expected trading profits thanks to strong momentum in the global financial markets. (2) Greater-than-expected shareholder payouts given capital surplus. (3) Higher expectations for shift of funds from deposits to the capital markets.

Downside risks: (1) Lower-than-expected profits of WM/GM segments due fluctuation in the global financial markets. (2) One-time losses like valuation losses. (3) Lower-than-expected shareholder payouts.

Analyst Certification

I, Yuki Yaginuma, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Japan - Financials and Property Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AEON Financial Service	AEOJF	8570 JP	Yuki Yaginuma
	Concordia Financial Group	CCRDF	7186 JP	Shinichiro Nakamura
	Daiwa House Industry	DWAHF	1925 JP	Takumi Kasai
	Fukuoka Financial Group	FKKFF	8354 JP	Shinichiro Nakamura
	Integral Corporation	XIAQF	5842 JP	Yuki Yaginuma
	Japan Post Bank	JPSTF	7182 JP	Shinichiro Nakamura
	Japan Post HD	JPHLF	6178 JP	Shinichiro Nakamura
	Japan Post Insurance	JPPIF	7181 JP	Shinichiro Nakamura
	Kajima Corporation	KAJMF	1812 JP	Takumi Kasai
	Katitas	KTITF	8919 JP	Takumi Kasai
	LIFENET INSURANCE	LIFNF	7157 JP	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MUFG	MUFG US	Shinichiro Nakamura
	Mitsubishi UFJ Financial Group	MBFJF	8306 JP	Shinichiro Nakamura
	Mitsui Fudosan	MTSFF	8801 JP	Takumi Kasai
	Mizuho Financial Group	MZHOF	8411 JP	Shinichiro Nakamura
	Mizuho Financial Group	MFG	MFG US	Shinichiro Nakamura
	Money Forward	MNYFF	3994 JP	Yuki Kaneko
	MS&AD Holdings	MSADF	8725 JP	Shinichiro Nakamura
	Nihon M&A Center	NHMAF	2127 JP	Yuki Yaginuma
	Nomura Holdings	NRSCF	8604 JP	Yuki Yaginuma
	Nomura Holdings	NMR	NMR US	Yuki Yaginuma
	ORIX	ORXCF	8591 JP	Shinichiro Nakamura
	ORIX	IX	IX US	Shinichiro Nakamura
	SBI Sumishin Net Bank	XHRFF	7163 JP	Shinichiro Nakamura
	Sompo Holdings	NHOLF	8630 JP	Shinichiro Nakamura
	Sumitomo Mitsui Trust Holdings	CMTDF	8309 JP	Shinichiro Nakamura
	T&D Holdings	TDHOF	8795 JP	Shinichiro Nakamura
	Tokyu Fudosan Holdings	TTUUF	3289 JP	Takumi Kasai
NEUTRAL				
	Chiba Bank	CHBAF	8331 JP	Shinichiro Nakamura
	Dai-ichi Life Holdings	DCNSF	8750 JP	Shinichiro Nakamura
	Daiwa Securities Group	DSECF	8601 JP	Yuki Yaginuma
	GMO Payment Gateway	GMYTF	3769 JP	Yuki Yaginuma
	Haseko Corporation	HSKCF	1808 JP	Takumi Kasai

Japan - Financials and Property Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kyoto Financial Group	XIDPF	5844 JP	Shinichiro Nakamura
	Mitsubishi Estate	MITEF	8802 JP	Takumi Kasai
	Rakuten Bank	XHRUF	5838 JP	Shinichiro Nakamura
	Resona Holdings	RSNHF	8308 JP	Shinichiro Nakamura
	Sekisui House	SKHSF	1928 JP	Takumi Kasai
	Shizuoka Financial Group	SFGIF	5831 JP	Shinichiro Nakamura
	Strike Company Limited	XVSEF	6196 JP	Yuki Yaginuma
	Sumitomo Mitsui Financial Group	SMFNF	8316 JP	Shinichiro Nakamura
	Sumitomo Mitsui Financial Group	SMFG	SMFG US	Shinichiro Nakamura
	Sumitomo Realty & Development	SURDF	8830 JP	Takumi Kasai
	Tokyo Tatemono	TYTMF	8804 JP	Takumi Kasai
UNDERPERFORM				
	Aozora Bank	AOZOF	8304 JP	Shinichiro Nakamura
	Credit Saison	CSASF	8253 JP	Yuki Yaginuma
	Daito Trust Construction	DITTF	1878 JP	Takumi Kasai
	M&A Capital Partners	MNACF	6080 JP	Yuki Yaginuma
	Obayashi Corporation	OBYCF	1802 JP	Takumi Kasai
	Seven Bank	SEBNF	8410 JP	Shinichiro Nakamura
	Shimizu Corporation	SHMUF	1803 JP	Takumi Kasai
	Suruga Bank	SRGBF	8358 JP	Shinichiro Nakamura
	Taisei Corporation	TISCF	1801 JP	Takumi Kasai
	Tokio Marine Holdings	TKOMF	8766 JP	Shinichiro Nakamura
	Tokio Marine Holdings	TKOMY	TKOMY US	Shinichiro Nakamura
RSTR				
	Digital Garage	DLGEF	4819 JP	Yuki Yaginuma

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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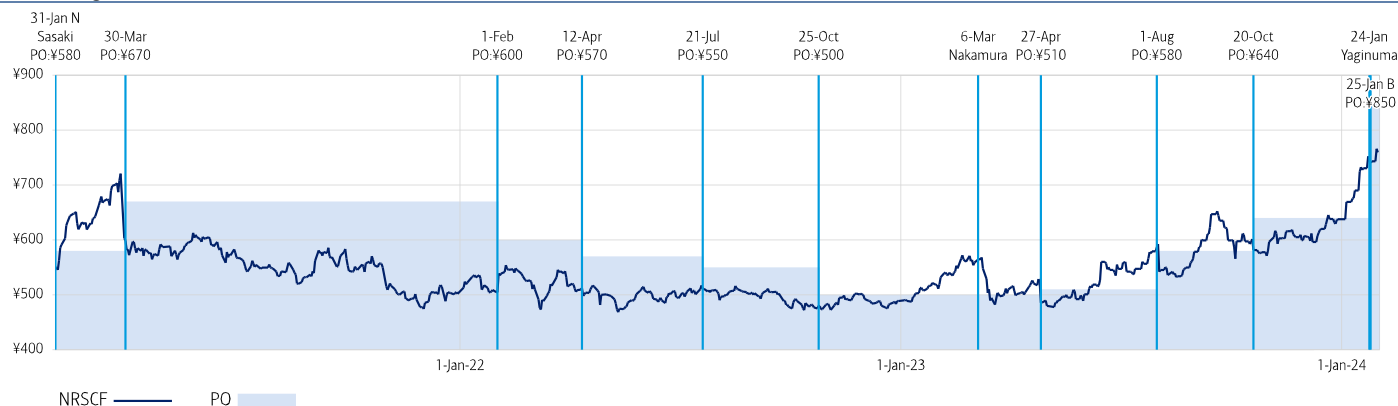
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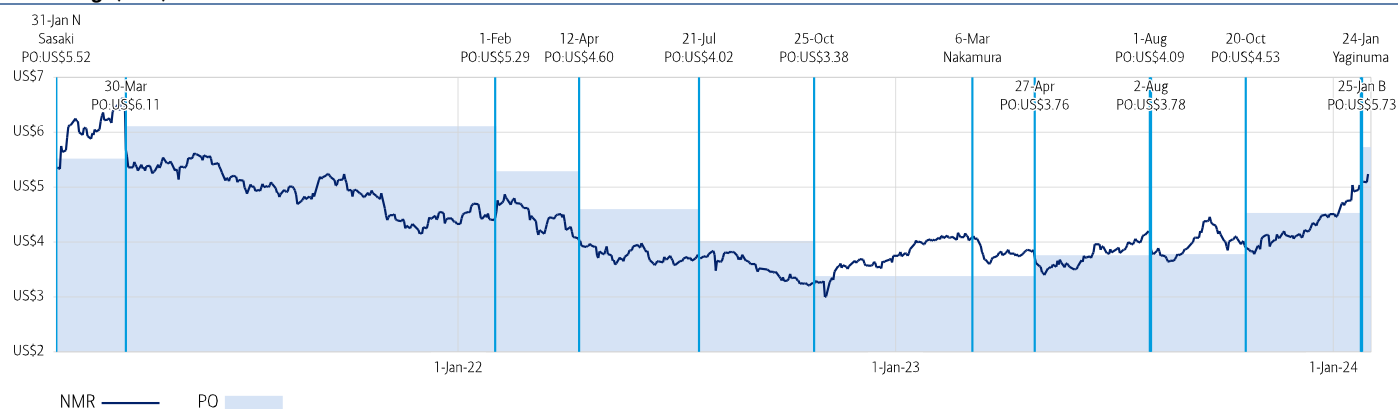
Nomura Holdings (NRSCF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Nomura Holdings (NMR) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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