Results for the Third Quarter Ended December 31, 2022 (February 2, 2023)

Speaker : Yoshiki Manabe, COO, General Accounting Department, Business Accounting Department, Finance Department, Managing Executive Officer

Performance in the Third Quarter Ended December 31, 2022

Consolidated Statements of Profit or Loss

Revenue was up ¥106.2 billion YoY, to ¥519.0 billion due to continued high coal prices in the Metals, Mineral Resources & Recycling division. In the Chemicals division posted a YoY revenue increase of ¥83.4 billion to ¥481.1 billion due to a generally strong performance in plastic resins, rare earth, and C5 (petrochemical) related businesses.
In addition, the new acquisition of an aquaculture food product manufacturing company caused a YoY increase of ¥81.0 billion to ¥232.9 billion in the Retail & Consumer service division, which posted an overall YoY increase of ¥376.7 billion to ¥1,925.3 billion.

Gross profit rose ¥35.2 billion YoY due to the significant contribution of the Metals, Mineral Resources & Recycling division. The Retail & Consumer service division and the Chemicals division reported increases of ¥10.3 billion and ¥9.4 billion, respectively, due to increases in income, resulting in an overall gross profit of ¥263.4 billion, up ¥72.7 billion from the same period last year.

SG&A increased by ¥31.9 billion YoY to ¥162.0 billion due to the inclusion of SG&A expenses of newly consolidated subsidiaries, an increase in the yen equivalent amount of expenses of overseas subsidiaries and operating companies due to yen depreciation, and an increase in bonus payments due to improved performance.

Other income/expenses of ¥7.2 billion was recorded following gains on the transference of a J-REIT management company as well as gains on sales and revaluation incurred as a result of a partial transference of our telecommunications tower operating business in the Philippines conducted in Q3. The benefits of these gains outweighed the impacts of an impairment loss recorded in preparation for the impending sale of copper mine interests.

Financial income and expenses increased by ¥1.8 billion in expenses YoY to post expenses of ¥0.2 billion due to ¥3.6 billion in net interest expenses and a decrease in dividend income.

Share of profit of investments accounted for using the equity method increased ¥11.7 billion YoY to ¥37.1 billion due to increased profits at a steel treading company, an LNG-related trading subsidiary, and a European wind-power business company.

Profit before taxes increased ¥60.5 billion YoY to ¥145.5 billion and after deducting income tax expenses, profit for the period attributable to owners of the Company, increased ¥46.7 billion YoY to ¥108.7 billion.
This represents 99% progress toward the full-year forecast of ¥110.0 billion that was revised upward on November 1. We have not revised the full-year forecast and leave it unchanged.

Consolidated Statements of Financial Position

Total assets amounted to ¥2,855.6 billion, an increase of ¥193.9 billion from the end of March 2022. Within that, the depreciation of the yen led to an increase of ¥70.0 billon in the yen conversion of foreign-denominated assets. The net increase of ¥120.0 billion is due to new investments and an increase in operating assets, such as coal and fertilizer, due to the timing of the transactions.

Total liabilities increased ¥67.1 billion from the end of March 2022 to ¥1,964.9 billion. As with assets, the impact of the yen's depreciation was about ¥50.0 billion.

Total equity attributable to owners of the Company increased by ¥121.2 billion from the end of March 2022 to ¥849.2 billion. In addition to a ¥92.6 billion increase in retained earnings due to the accumulation of net income and other factors, other components of equity increased by ¥28.5 billion mainly due to a ¥37.5 billion increase in foreign currency conversion adjustments on foreign operating activities resulting from yen depreciation.

Net debt/equity ratio declined 0.18 points from the end of March 2022 to 0.88 times.

Consolidated Statements of Cash Flows

Cash flows from operating activities was ¥128.0 billion in excess of collection, mainly due to an increase in core operating cash flows.

Cash flow from investing activities resulted in a cash outflow of ¥46.3 billion due to the execution of new investments.

Free cash flow was a cash inflow of ¥81.7 billion.

Core cash flow resulted in a cash inflow of ¥79.5 billion. After adding ¥60.0 billion of cash inflow from asset replacement to the core operating cash flow and subtracting ¥67.0 billion due to new investments and ¥29.0 billion of contribution to shareholder return.

Performance by Division

All segments reported YoY increases in earnings, including the Metals, Mineral resources & Recycling Division, due to the high market price of coal.
Considering the recent progress, we have revised the forecast for each segment from the revised forecast of November 1.

Automotive Division, while there was a certain degree of impact from the semiconductor shortage, business in the Americas and other businesses performed well, and the impact of yen depreciation in the overseas automotive business also contributed to an increase in Q3 results to ¥6.9 billion. Based on these solid trends, we have revised our forecast upward to ¥8.0 billion.

Aerospace & Transportation Project Division posted solid Q3 results of ¥4.4 billion mainly due to revenue contributions from aviation-related and shipping businesses. The forecast remains unchanged at ¥5.0 billion, which is generally in line with the previous revision upward on November 1.

Infrastructure & Healthcare Division recorded ¥12.2 billion in Q3 due to continued strong performance in the LNG-related business and domestic and overseas power generation businesses. In Q4, we expect LNG-related and power generation businesses to contribute to earnings, and we have revised our forecast upward to ¥17.0 billion.

Metals, Mineral resources & Recycling Division, due to favorable progress in H1, we have revised the initial forecast from ¥51.0 billion to ¥65.0 billion on November 1. However, despite the current strong coal market, we have now revised that forecast downward to ¥60.0 billion to factor in the impact of lower production volume due to torrential rains in Australia and the loss on liquidation recorded in Q3 for the withdrawal from copper mine operations.

Chemicals Division posted ¥15.1 billion for Q3 due to continued improvement in overall market conditions and profitability of chemical products. Forecast for the chemicals division remains unchanged as we expect steady growth.

Consumer industry & Agriculture business Division, profits also accumulated in Q3 and exceeded the forecast of ¥7.4 billion. Based on this progress, we expect Q4 earnings to be flat and have revised our full year forecast upward to ¥7.5 billion.

Retail & Consumer service Division recorded ¥7.5 billion in Q3 due to the impact of asset replacement, etc. In addition to exceed the previous forecast of ¥7.0 billion, which we revised from ¥5.0 billion in anticipation of a one-time gain from asset replacement in H2 on November1, based on this progress, we have revised the figure upward to ¥7.5 billion.

As a result of the above review of the seven sales divisions, a total of about ¥20.0 billion in profit is expected in Q4.

Others, although we posted a profit of ¥6.9 billion in Q3, we have revised the forecast downward to a loss of ¥12.0 billion by factoring in about ¥20.0 billion in costs associated with a review of asset valuation, based on cost increases due to revisions to plans for ongoing projects and delays in project progress caused by COVID-19, and amid an external environment that includes advancing inflation and rising interest rates.

Full year forecast

Gross profit: We have revised our forecast from ¥340 .0 billion announced on November 1, 2022to ¥345.0 billion.

SG&A expenses: We have revised our forecast from ¥230.0 billion announced on November 1,2022 to ¥225.0 billion.

Financial income and expenses: We have revised our forecast from minus ¥5.0 billion announced on November 1, 2022 to minus ¥1.0 billion, up ¥4.0 billion.

Equity in earnings of affiliates: We have revised our forecast from November 1, 2022 upward from ¥43.0 billion to ¥49.0 billion.

Other income and expenses: We have revised our forecast from ¥2.0 billion announced on November 1, 2022 to minus ¥18.0 billion incorporated ¥20.0 billion in expenses.

Profit before taxes and net profit have not been revised.

Financial position: We have revised our full year forecasts due to revision of forecast for new investments and asset replacement and also for the exchange rate, which has been changed to ¥130.