

## Highlights of Blast Furnace Steelmakers' Financial Results for Fiscal Year Ended March 2023

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2023 (FY2022) and earnings forecasts for FY2023 of Japan's three blast furnace steelmakers (collectively, the "Companies"): NIPPON STEEL CORPORATION ("NIPPON STEEL"), JFE Holdings, Inc. ("JFE") and Kobe Steel, Ltd. ("KOBELCO").

### 1. Industry Trend

Japan's crude steel production volume for FY2022 fell 8.1% from FY2021's 95.63 million tons to 87.85 million tons (Chart 1). Not only growth in demand for automotive applications was stagnant due to the prolonged lack of semiconductors and parts, but the steel market also deteriorated, resulting in sluggish exports. Production volume in FY2023 is mostly likely to increase only slightly from FY2022. This is because, although domestic production by automakers is beginning to pick up, the outlook for global economy is highly uncertain due to worldwide price increases, monetary tightening, prolonged Russia's invasion of Ukraine, etc.

Western countries started banning the import of coking coals produced in Russia in March to April 2022; consequently, the supply-demand balance of coking coals produced in other countries than Russia has tightened, and coal prices have soared. Prices soon began to fall but have been staying at a relatively high level to date. On top of this, the yen depreciated against the previous year, resulting in a sharp rise in the prices of main raw materials and energies for the Companies, which contributed to cost increases. Meanwhile, full-year metal spreads of the Companies expanded thanks to steady progress in reflecting price increases in response to rising prices of main raw materials and relatively stable prices of main raw materials in the second half of the year. Overseas, however, the market for steel products was weak against the backdrop of economic slowdown in China and other factors, and export profitability appears to have worsened.

### 2. Financial Results

Operating income of the Companies combined for FY2022 (gross profit less SG&A expenses for NIPPON STEEL and JFE) fell 5.3% over the year to 1,017.4 billion yen (Chart 2). While NIPPON STEEL achieved income growth, JFE and KOBELCO saw the income decline; in any event, all three companies maintained a higher income level than before. While the decline in product shipments had a negative impact, margins increased probably as a result of enhancement of the product mix, reflection of increases in the prices of main raw materials in selling prices and improvement in the basic profitability of negotiated transactions. In addition to this, NIPPON STEEL's results were supported also by successful cost improvement resulting from structural reforms of production facilities. For JFE, the impact of foreign exchange rates and inventory valuation differences was relatively large. With the decline in operating income, the total of profit attributable to owners of the parent (net income attributable to owners of the parent for KOBELCO) dropped 5.7% over the year to 929.2 billion yen.

On the financial front, interest-bearing debt of the Companies combined as of the end of FY2022 (after reflecting the equity content of hybrid products) was 4.8 trillion yen, shrinking 0.8% from a year before (Chart 3). The Companies' capital spending and other investments remained roughly at around the same level as the previous year, and all three have been securing positive free cash flow since FY2020. Equity attributable to owners of the parent of the Companies combined (after reflecting the equity content of hybrid products; equity capital for KOBELCO) grew 9.1% over the year to 7.4 trillion yen. Thanks to solid performance, the Companies successfully accumulated capital from profits. D/E ratio of the Companies combined (after reflecting the equity content of hybrid products) based on equity attributable to owners of the parent and interest-bearing debt improved to 0.6x from 0.7x at the previous year-end.

### 3. Highlights for Rating

Net income of the Companies combined based on the FY2023 forecasts is 660 billion yen, down 29.0% from the previous year. NIPPON STEEL expects lower income, while JFE and KOBELCO anticipate income growth. NIPPON STEEL's income decline will be large because inventory valuation differences, etc. will have a greater negative impact on the earnings than before. JFE and KOBELCO are also expected to see inventory valuation differences, etc. push down the income but will likely secure higher income thanks in part to spread and cost improvements and the construction of new power plants in the electric power business, respectively. As in the previous year, the Companies' profit levels excluding the impact of inventory valuation differences, etc. are expected to remain high compared to several years ago.

JCR is keeping an eye on the risk of a downturn in domestic demand for steel products. The non-consolidated crude steel production of the Companies combined in FY2023 is projected at around 66.20 million tons, increasing slightly from FY2022's 64.54 million tons. The increase in automobile production is expected to underpin domestic demand, but demand from the construction sector is weak, as evidenced by moves to cancel or postpone the construction of small and medium-sized buildings. As the U.S. and European economies slow down in tandem with inflation and interest rate hikes, the negative impact on production activities and capital spending may intensify.

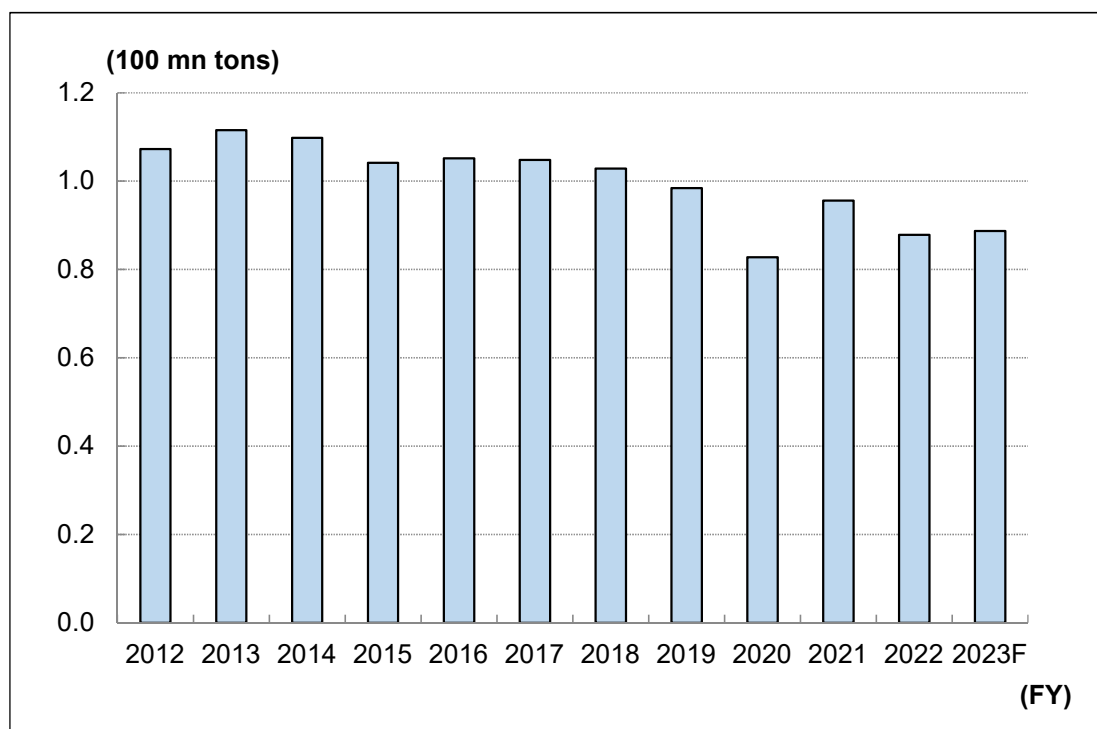
JCR is closely watching trends in overseas markets and the profitability of export transactions linked to market conditions. In 2022, market prices for steel fell in major countries, as a result of which the Companies' export transactions appear to have become less profitable. So far in 2023, markets seem to be picking up, but not to the extent of fully absorbing the increase in the costs of main raw materials, etc. in JCR's view. Attention should also be paid to the impact of the recent increase in China's steel exports on market conditions.

In negotiated transactions, product prices are being steadily revised, and thus the Companies are most likely to be able to maintain certain levels of metal spreads into the future. Given also that the Companies seem to be successfully lowering their break-even points, they can probably secure solid profits if they can maintain shipment volumes on par with their plans.

The Companies' profits and cash flow generation capacity have since FY2021 been at higher levels than before, and financial conditions have been improving. Looking at the Companies' earnings forecasts, JCR assumes that the financial structure will likely improve with the accumulation of capital from profits in FY2023, too. That said, as investments in growth, upgrading of aging facilities, carbon neutrality and so forth are expected to continue into the future, attention will be paid to balance between operating cash flow and investments and the pace of financial improvement.

Masayoshi Mizukawa, Yosuke Sato

(Chart 1) Domestic Crude Steel Production Volume



(Source: Prepared by JCR based on data of The Japan Iron and Steel Federation and the Ministry of Economy, Trade and Industry)

(Chart 2) Financial Results of Three Blast Furnace Steelmakers

(JPY 100 mn, %)

		Revenue	YOY Change	Gross Profit - SG&A Exp.	YOY Change	Business Profit	YOY Change	Business Profit / Revenue	Profit Attributable to Owners of the Parent	YOY Change
NIPPON STEEL (5401)	FY2021	68,088	41.0	6,768	603.6	9,381	752.5	13.8	6,373	-
	FY2022	79,755	17.1	7,141	5.5	9,164	▲2.3	11.5	6,940	8.9
	FY2023F	90,000	12.8			6,500	▲29.1	7.2	3,700	▲46.7
JFE (5411)	FY2021	43,651	35.3	3,100	-	4,164	-	9.5	2,880	-
	FY2022	52,687	20.7	2,169	▲30.0	2,358	▲43.4	4.5	1,626	▲43.5
	FY2023F	55,400	5.1			2,900	23.0	5.2	1,900	16.8

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary Income	YOY Change	Ordinary Income / Net Sales	Net Income Attributable to Owners of the Parent	YOY Change
KOBELCO (5406)	FY2021	20,825	22.1	876	188.2	932	475.9	4.5	600	158.6
	FY2022	24,725	18.7	863	▲1.4	1,068	14.6	4.3	725	20.8
	FY2023F	26,800	8.4	1,500	73.7	1,300	21.7	4.9	1,000	37.8

		Revenue	YOY Change	Gross Profit - SG&A Exp.	YOY Change	Net Income	YOY Change
Total	FY2021	132,566	35.8	10,744	817.9	9,854	-
	FY2022	157,168	18.6	10,174	▲5.3	9,292	▲5.7
	FY2023F	172,200	9.6	-	-	6,600	▲29.0

\*1: Figures for NIPPON STEEL and JFE are based on IFRS, and those for KOBELCO on J-GAAP.

\*2: Revenue under Total is Net Sales for KOBELCO.

\*3: Net Income under Total is the sum of Net Income Attributable to Owners of the Parent based on J-GAAP and Profit Attributable to Owners of the Parent based on IFRS.

(Source: Prepared by JCR based on the financial materials of above companies)

(Chart 3) Financial Results of Three Blast Furnace Steelmakers

(JPY 100 mn, times)

		Equity Attributable to Owners of the Parent	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
NIPPON STEEL (5401)	FY2020	31,349	21,842	0.7	3,870	5.6	4,031	▲3,890
	FY2021	38,417	22,783	0.6	10,074	2.3	6,156	▲3,788
	FY2022	45,561	23,243	0.5	10,543	2.2	6,612	▲3,665
JFE (5411)	FY2020	18,710	16,142	0.9	2,268	7.1	2,472	▲1,642
	FY2021	21,895	16,482	0.8	5,623	2.9	2,987	▲2,880
	FY2022	23,740	16,092	0.7	4,865	3.3	3,957	▲2,743

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
KOBELCO (5406)	FY2020	7,103	9,878	1.4	1,312	7.5	1,947	▲1,418
	FY2021	8,153	9,084	1.1	1,927	4.7	1,688	▲1,615
	FY2022	9,139	8,618	0.9	1,988	4.3	1,196	▲972

		Equity Attributable to Owners of the Parent	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
Total	FY2020	57,164	47,863	0.8	7,451	6.4	8,452	▲6,951
	FY2021	68,466	48,350	0.7	17,625	2.7	10,831	▲8,284
	FY2022	78,441	47,953	0.6	17,397	2.8	11,767	▲7,381

\*4: Figures after reflecting the equity content of hybrid products for NIPPON STEEL and JFE

\*5: EBITDA is gross profit - SG&A expenses + depreciation expenses.

\*6: Equity Attributable to Owners of the Parent under Total is the sum of Equity Capital based on J-GAAP and Equity Attributable to Owners of the Parent based on IFRS.

(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: NIPPON STEEL CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: JFE Holdings, Inc.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: JFE Steel Corporation

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Kobe Steel, Ltd.

Long-term Issuer Rating: A- Outlook: Stable

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