

Mitsui E&S HD Resolves to Issue Preferred Shares and Stock Acquisition Rights—Underpinning Creditworthiness

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on resolution of Mitsui E&S Holdings Co., Ltd. (security code: 7003) to issue preferred shares and stock acquisition rights.

- (1) On March 31, Mitsui E&S Holdings Co., Ltd. (the “Company”) announced that its Board of Directors had resolved to issue preferred shares and stock acquisition rights through a third-party allotment. In total, the Company plans to proceed with the financing in the amount of 17 billion yen. The preferred shares will be allocated to a fund in which SMBC Capital Partners Co., Ltd., a subsidiary of Sumitomo Mitsui Banking Corporation, and the stock acquisition rights will be allocated to SMBC Nikko Securities Inc. The issuance of the preferred shares is subject to approval at the annual shareholders' meeting scheduled for June 28. The exercisable period of the stock acquisition rights is from April 19, 2022 to April 30, 2025.
- (2) The Company's financial base had become weak due to the recording of large amount of losses incurred in the civil construction work of the thermal power plant in Indonesia. Furthermore, MODEC, Inc., an equity-method affiliate of the Company, posted a large loss for the fiscal year ended December 31, 2021, which was expected to further impair the Company's equity capital toward the end of the fiscal year ended March 31, 2022, and JCR announced on January 24 that it had revised the rating outlook to Negative. If the series of capital measures announced this time are realized, they can support the creditworthiness of the Company to a certain degree. The preferred shares have a strong debt nature, as they come with a right to be repurchased for cash, but the right is not exercisable until after June 30, 2027, in principle, so they can provide a certain financial buffer for the time being. In addition, since a target price clause is attached to some of the stock acquisition rights, it is unlikely that all of the rights will be exercised early, but the minimum exercise price of remaining portion is set at 80% of the closing price on the business day before the resolution date of the issuance, so financing is expected to proceed to some extent.
- (3) On March 31, the Company also announced that it had signed a basic agreement with IHI Corporation to begin discussions and deliberations on taking over the large marine engines and ancillary businesses of IHI's subsidiary, IHI Power Systems Co., Ltd. Details of the specifics and scope of the target business and the method of this transaction have not yet been determined. JCR will check the future direction of the Company's business performance and financials, as well as the outcome of the announced capital policy and discussions and deliberations regarding business succession, and incorporate them into the rating.

Hiroaki Sekiguchi, Takahiko Yamaguchi

<Reference>

Issuer: Mitsui E&S Holdings Co., Ltd.

Long-term Issuer Rating: BB+ Outlook: Negative

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