

## Highlights of Oil Distributors' Financial Results for Fiscal Year Ended March 2024

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 2024 (FY2023) and earnings forecasts for FY2024 of three oil distributors (collectively, the "Companies"): Idemitsu Kosan Co., Ltd. ("Idemitsu Kosan") (security code: 5019), ENEOS Holdings, Inc. ("ENEOS HD") (security code: 5020) and COSMO ENERGY HOLDINGS COMPANY, LIMITED ("COSMO ENERGY HD") (security code: 5021).

### 1. Industry Trend

The Dubai crude oil price for FY2023 was USD 82 per barrel, USD11 lower than FY2022. From April to August 2023, the price fluctuated around the USD 80 level. In September and October, there were times when prices exceeded USD 90 per barrel due to Saudi Arabia's extension of voluntary production cuts and the worsening situation in the Middle East, but since November the prices have again been around the USD 80 level.

Domestic demand for petroleum products increased in FY2021 as a reaction to the decline caused by the COVID-19 pandemic, but has been on a downward trend again since FY2022. According to the preliminary report on petroleum statistics by the Ministry of Economy, Trade and Industry, the total volume of domestic fuel oil sales in FY2023 was 144.57 million kl (down 4.1% year on year). Jet fuel increased 8.8% year on year, but all of the other major fuel oil types, including gasoline (down 0.6% year on year), decreased. Also in FY2024, domestic demand for petroleum products is expected to decline year on year. The long-term downward trend will remain unchanged. Moreover, the pace of demand decline also assumed to accelerate going forward to realize carbon neutrality.

In FY2023, refining function was suspended at the Wakayama Refinery of ENEOS HD in October, and at the Yamaguchi Refinery of Seibu Oil Company Limited, Idemitsu Kosan's subsidiary, in March, resulting in a 6.6% year-on-year decline in atmospheric distillation unit capacity at domestic refineries at the end of the period. The reduction in supply capacity is expected to help raise the average operating rates of domestic refineries from 79.2% in FY2022. In FY2023, however, as the Companies experienced facility troubles of varying size at their refineries, the growth of operating rates slowed down.

### 2. Financial Results

The total operating income of the Companies for FY2023 (for ENEOS HD, gross profit less SG&A expenses; the same applies hereafter) was 1,447.8 billion yen (2.1 times previous period), the first increase for two periods (Chart 1). Although the oil exploration business saw a decline in income due to the fall in crude oil prices, income from petroleum products increased significantly, mainly thanks to improved margins including time lags. Even excluding inventory valuation effects, the total operating income of the Companies for FY2023 increased to 1,324.2 billion yen (2.2 times previous period).

Looking at individual Companies, ENEOS HD saw a growth rate in consolidated earnings above the combined growth ratio of the Companies, because of improved margins on petrochemical products, a reduction in losses in the electricity business, and the elimination of valuation loss associated with the sale of a portion of its stake in the Caserones copper mine. Idemitsu Kosan saw a significant drop in income in its coal business with falling coal prices, but income in other businesses, particularly fuel oils, improved, resulting in a company-wide income growth. COSMO ENERGY HD was the only one of the companies to report a decrease in income, affected by a negative inventory valuation effects, but its operating income less inventory valuation effects grew.

In terms of finances, the total interest-bearing debt of the Companies decreased, mainly thanks to a reduction in working capital liabilities with lower crude oil prices. In addition, accumulated profits led to an increase in equity capital (for ENEOS HD, equity attributable to the owners of the parent; the same hereinafter). As a result, the Companies' DER based on the total equity capital and interest-bearing debt at end-FY2023 improved to 0.8x from 1.0x at end-FY2022 (Chart 2). In addition, the Companies' ratio of interest-bearing debt to EBITDA based on the total interest-bearing debt and EBITDA less inventory valuation effects in FY2023 was 3.5x, improving from 4.5x in FY2022 (all equity capital and interest-

bearing debt are calculated after the evaluation of the equity content of subordinated bonds for ENEOS HD).

### 3. Highlights for Rating

For FY2024, ENEOS HD and COSMO ENERGY HD are projected to post an operating income of less inventory effects (ENEOS HD applies IFRS) roughly at the same level as FY2023. Although positive time lags in petroleum product margins are expected to be eliminated, this will likely be offset by improvements in troubles at refineries and wider margins for petrochemical product, among others. Idemitsu Kosan is assumed to see a decrease in operating income less inventory valuation effects due to the elimination of time lags in petroleum product margins, as well as a decrease in profits of its trading business, which was strong in the previous period, and falling coal prices. Margins on domestic petroleum products excluding the effects of time lags are expected to remain to be secured, which will likely support the earnings of each of the Companies.

Regarding crude oil prices, a factor influencing earnings, ENEOS HD is assuming a Dubai crude oil price of USD 80, while Idemitsu Kosan and COSMO ENERGY HD are assuming USD 85 for FY2024, a close of USD 82 in FY2023. In April 2024, the price fluctuated around USD 90 due to the worsening situation in the Middle East and expectations of a Chinese economic recovery, but in mid-May it fell to just under USD 85. Crude oil prices have always been highly volatile, and in recent times, in addition to demand trends, factors for fluctuations on the supply side have become increasingly diverse and uncertain, such as coordinated production cuts by OPEC member countries and non-member oil-producing countries and geopolitical risks in oil-producing countries. As crude oil prices are assumed to continue to fluctuate due to various factors going forward, caution is required.

Following the improvement in their financial structure in FY2023, each of the Companies announced to newly implement share buybacks in FY2024. The total acquisition prices are 70 billion yen for Idemitsu Kosan, 200 billion yen for ENEOS HD, and 23 billion yen for COSMO ENERGY HD. These are on the back of an increase in cash inflows resulting from strong earnings, and JCR believes that they will not have a significant impact on the rating of each of the Companies. However, shareholder returns for oil distributors have always been high, and investments in areas such as energy transition will likely be in full swing going forward. JCR will continue to monitor whether their financial soundness will not deteriorate while maintaining a balance between increased investments and shareholder returns.

Hiroyuki Chikusa, Masayoshi Mizukawa

(Chart 1) Financial Results of Oil Distributors

(JPY 100 mn, %)

Fiscal Period		Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent	Inventory Valuation Effects	Operating Income less Inventory Valuation Effects	Net Income/Net Sales
Idemitsu Kosan (5019)	FY2022	94,562	2,824	3,215	2,536	557	2,267	2.7
	FY2023	87,192	3,463	3,852	2,285	525	2,938	2.6
	FY2024F	87,000	1,690	1,880	1,250	0	1,690	1.4
COSMO ENERGY HD (5021)	FY2022	27,918	1,637	1,645	679	216	1,421	2.4
	FY2023	27,295	1,492	1,616	820	▲6	1,498	3.0
	FY2024F	32,000	1,540	1,650	790	50	1,490	2.5
Fiscal Period		Net Sales	Gross Profit less SG&A Expenses	Operating Income	Profit Attributable to Owners of the Parent	Inventory Valuation Effects	Operating Income less Inventory Valuation Effects	Net Income/Net Sales
ENEOS HD (5020)	FY2022	150,165	2,572	2,812	1,437	348	2,464	1.0
	FY2023	138,566	9,523	4,649	2,881	717	3,932	2.1
	FY2024F	146,000	N.A.	4,000	2,100	0	4,000	1.4
Fiscal Period		Net Sales	Operating Income	–	Net Income	Inventory Valuation Effects	Operating Income less Inventory Valuation Effects	Net Income/Net Sales
Total	FY2022	272,647	7,035	–	4,653	1,121	5,914	1.7
	FY2023	253,054	14,478	–	5,986	1,236	13,242	2.4
	FY2024F	265,000	N.A.	–	4,140	50	N.A.	1.6

Notes:

1. Figures for FY2024 are forecasts announced by the respective Companies.
2. Figures for ENEOS HD are based on IFRS.

3. For "Operating Income" in "Total," only ENEOS HD uses "Gross Profit less SG&A Expenses."
  4. "Net Income" in "Total" is a sum of "Net Income Attributable to Owners of the Parent" under Japanese GAAP and "Profit Attributable to Owners of the Parent" under IFRS.
- (Source: Prepared by JCR based on financial materials of respective Companies)

(Chart 2) Financial Conditions of Oil Distributors

(JPY 100 mn, times)

Fiscal Period		Equity Capital	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
Idemitsu Kosan (5019)	FY2021	14,121	13,368	0.9	3,288	4.1	1,461	▲ 1,116
	FY2022	16,145	14,579	0.9	3,486	4.2	▲ 328	700
	FY2023	17,998	12,884	0.7	4,132	3.1	3,773	▲ 658
COSMO ENERGY HD (5021)	FY2021	4,712	5,686	1.2	2,179	2.6	1,083	▲ 675
	FY2022	5,278	6,862	1.3	1,990	3.4	81	▲ 811
	FY2023	6,005	6,183	1.0	2,109	2.9	1,779	▲ 327

  

Fiscal Period		Equity Attributable to Owners of the Parent	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
ENEOS HD (5020)	FY2021	30,107	25,854	0.9	6,871	3.8	2,095	▲ 3,499
	FY2022	30,098	29,594	1.0	5,916	5.0	▲ 1,102	▲ 1,159
	FY2023	34,272	26,200	0.8	6,819	3.8	10,102	▲ 2,409

  

Fiscal Period		Equity Capital	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
Total	FY2021	48,940	44,909	0.9	12,339	3.6	4,639	▲ 5,290
	FY2022	51,522	51,035	1.0	11,393	4.5	▲ 1,349	▲ 1,270
	FY2023	58,276	45,268	0.8	13,061	3.5	15,656	▲ 3,395

Notes:

5. "Interest-bearing Debt" is a sum of corporate bonds and borrowings for ENEOS HD; and a sum of borrowings, corporate bonds and CP for Idemitsu Kosan and COSMO ENERGY HD.
6. "Equity Attributable to Owners of the Parent" and "Interest-bearing Debt" of ENEOS HD are amounts after evaluation of the equity content of subordinated bonds.
7. "Equity Capital" and "Interest-bearing Debt" of COSMO ENERGY HD for FY2021 are amounts after evaluation of equity content of subordinated loans.
8. "Equity Capital" in "Total" is a sum of "Equity Capital" under Japanese GAAP and "Equity Attributable to Owners of the Parent" under IFRS.

(Source: Prepared by JCR based on financial materials of respective Companies)

<Reference>

Issuer: Idemitsu Kosan Co., Ltd.

Long-term Issuer Rating: A+      Outlook: Stable

Issuer: ENEOS Holdings, Inc.

Long-term Issuer Rating: AA-      Outlook: Stable

Issuer: COSMO ENERGY HOLDINGS COMPANY, LIMITED

Long-term Issuer Rating: A-      Outlook: Stable

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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