

Highlights of Major Milling Companies' Financial Results for Fiscal Year Ended March 2021

The following is 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 2021 (FY2020) and earnings forecasts for FY2021 of three Japanese flour milling companies (collectively, the "Companies"): NISSHIN SEIFUN GROUP INC. ("NISSHIN SEIFUN GROUP"), NIPPON CORPORATION ("NIPPON") and Showa Sangyo Co., Ltd. ("Showa Sangyo").

1. Industry Trend

Domestic flour sales volume has been at around 5 million tons. Since wheat flour, the main raw material for bread and noodles, is a daily necessity, its sales volume is stable. Most of wheat used as a raw material depends on imports from the U.S. and Australia, and is controlled under the national trading system. Each of the Companies purchases imported wheat from the government, and its prices are the same from major companies to small-and medium-sized companies.

The international market for wheat is currently on an uptrend. In the first half of 2020, the world's wheat market remained stable at the USD 5 per bushel level, against the backdrop of the abundant inventory in the world and weak demand for mixed feed. However, because of the recovery in demand in China, Russia's export restrictions and the unseasonable weather in the U.S., the price has recently been around USD 7 per bushel, the highest level in about seven years. In the period started in April 2021 (April 2021 to September 2021), the weighted average price of five-brand wheats imported by the government for sales (including tax) stood at 51,930 yen per ton, an increase of 5.5% over the previous period. Along with this, the Companies plan to raise the prices of business-use flour from June.

2. Financial Results

For FY2020, the Companies recorded, in simple sum, net sales of 1,265 billion yen, down 3.5% year on year, and an operating profit of 45.1 billion yen, down 3.6% year on year, resulting in lower sales and profits. Amid the COVID-19 pandemic, although household-use products saw a growth, sales of business-use products for restaurants and convenience stores ("CVS"s), among others, significantly dropped. In recent years, each of the Companies has strengthened sales to CVSs. Partly because of this, a decline in the number of visitors to CVSs, primarily in urban areas, hit Companies' sales. These trends can be also observed in the foods industry as a whole. In the milling industry, household-use products were failed to offset the drop in the business-use, but the impact was limited.

The financial structure of the Companies at the end of FY2020 remains at a favorable level. Showa Sangyo acquired BOSO OIL&FAT CO., LTD., which handles rice oils, through a TOB in 2020 for a total acquisition amount of about 1.6 billion yen, and also purchased shares of San-ei Suchochemical Co., Ltd. for 15 billion yen from MITSUI & CO., LTD. However, the impact on the financial position was limited.

3. Highlights for Rating

For FY2021, the Companies forecasts total net sales of 1.260 trillion yen, down 0.4% year on year, and an operating profit of 47.2 billion yen, up 4.6% year on year, almost flat in sales (a slight decline in sales) and an increase in profit. Each of the Companies has factored in a recovery in sales of business-use products to a certain extent. Looking at profit by segment, in the milling business, while sales volumes recovered in NIPPON, profit is expected to be generally the same with the previous fiscal year, factoring in higher costs. Meanwhile, NISSHIN SEIFUN GROUP plans to increase profits with recovery in performance in the overseas business and promotion of earnings structure reforms in the bakery business. In the foods business, only NIPPON projects to expand profit in tandem with growth in sales volume in frozen foods, etc., while NISSHIN SEIFUN GROUP and Showa Sangyo forecast a

decrease in profit. The former incorporates a decline in sales of drug substances, and the latter expects a rise in cost in the fats, oils and foods businesses.

JCR sees that the Companies' FY2020 performances and FY2021 forecasts are not significantly different from levels assumed in the December 2020 rating reviews.

For each of them, there is no change in the policy of expanding its earnings capacity by strengthening the foundation of its businesses other than the domestic milling business.

For domestic operation, JCR is paying close attention to trends in the foods business. In recent years, interests have been sluggish in the vendor business for CVSs. Each of the Companies has grown its business in tandem with the increase in the number of CVS stores, but the pace of growth is slowing. Furthermore, it has been negatively affected by a decrease in the number of opportunities to go out amid the pandemic. On the production side, rising costs such as logistics costs are an issue to address. Going forward, it is necessary to improve profitability by further strengthening product development capabilities and advancing mechanization and automation.

JCR is also focusing on development in the overseas business. NISSHIN SEIFUN GROUP is ahead of peers in overseas expansion, with an over 20% overseas sales ratio in FY2020. Because of the impact of the pandemic, operation of its yeast plant in India has been delayed, but there has been no significant change in its policy of expanding the overseas business. While NIPPON is constructing a new plant in Indonesia, Showa Sangyo started a joint venture in Taiwan in 2020, creating its first equity-method affiliate. The weight of the overseas businesses is small for the two Companies, but JCR will check whether they will lead to the progress of each initiative and growth in medium-to long-term growth.

In terms of the financial structure, each of the Companies will continue to invest in the overseas business and cultivating new sources of earnings, such as home-meal replacement (HMR). However, given the liquidity on hand and cash flow generation capacity, their current financial indicators are unlikely to deteriorate significantly.

Hajime Inoue, Mariko Miura

(Chart 1) Consolidated Financial Results of Three Major Milling Companies

(JPY 100 mn, %)

		FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)	FY2021 (Forecast)		FY2018 (Actual)	FY2019 (Actual)	FY2020 (Actual)
NISSHIN SEIFUN GROUP (2002)	Net Sales	5,653	7,121	6,794	6,600	Equity Capital	4,039	3,949	4,330
	Operating Income	269	288	271	282	Interest-bearing Debt	163	533	769
	Operating Margin	4.8	4.1	4.0	4.3	Equity Ratio	67.9	59.3	63.0
NIPPON (2001)	Net Sales	3,353	3,448	3,295	3,200	Equity Capital	1,501	1,537	1,642
	Operating Income	112	111	103	111	Interest-bearing Debt	613	633	701
	Operating Margin	3.3	3.2	3.1	3.5	Equity Ratio	51.2	52.9	53.3
Showa Sangyo (2004)	Net Sales	2,559	2,540	2,559	2,800	Equity Capital	828	853	996
	Operating Income	84	88	75	79	Interest-bearing Debt	303	293	454
	Operating Margin	3.3	3.5	3.0	2.8	Equity Ratio	47.4	49.2	46.7
Total	Net Sales	11,566	13,110	12,650	12,600				
	Operating Income	465	487	451	472				
	Operating Margin	4.0	3.7	3.6	3.7				

(Chart 2) Operating Income of Flour Milling Segment

(JPY 100 mn)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021F
NISSHIN SEIFUN GROUP	92	98	100	92	93	63	78
NIPPON	39	40	52	55	57	51	50
Showa Sangyo	30	29	24	30	29	17	32

(Chart 3) Operating Income of Foods Segment

(JPY 100 mn)

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021F
NISSHIN SEIFUN GROUP	115	124	135	134	146	166	159
NIPPON	68	67	44	52	49	42	53
Showa Sangyo	39	50	32	45	48	47	35

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

Note: Above figures are the simple sum of the figures for the processed food and prepared dishes & other prepared foods businesses for NISSHIN SEIFUN GROUP and those for the vegetable oils and starches & sweeteners businesses for Showa Sangyo. FY2021 figures are the forecasts of respective companies.

<Reference>

Issuer: NISSHIN SEIFUN GROUP INC.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: NIPPON CORPORATION

Long-term Issuer Rating: A Outlook: Stable

Issuer: Showa Sangyo Co., Ltd.

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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