

## Highlights of Oil Distributors' Financial Results for Fiscal Year Ended March 2025

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 2025 (FY2024) and earnings forecasts for FY2025 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 average Dubai crude oil price for FY2024 was USD 79 per barrel, down USD 3 from FY2023. Starting from around USD 90 at the beginning of the year partly because of growing tensions in the Middle East, it began falling in summer due to uncertainty about the future of global economy, especially China, and stayed roughly at the USD 70 level thereafter.

Domestic demand for petroleum products has long been tapering. According to "Petroleum product demand forecast for FY2025–2029" compiled by the Agency for Natural Resources and Energy, demand for all fuel oils (excluding C-heavy oil for power generation; estimated actual volume) was 136.54 million kl for FY2024, down 3.9% from the previous year, and is expected to fall again in FY2025 by 1.5% to 134.43 million kl. Domestic demand is likely to keep shrinking due to such factors as the shift from gasoline passenger cars to electric vehicles (EVs and HVs), fuel conversion in the industrial sector and improved logistics efficiency. The downtrend will continue into the future, and the pace of the decline in demand is assumed to accelerate over the medium to long term so as to realize carbon neutrality.

As of the end of FY2024, the number of domestic refineries was 19, with atmospheric distillation capacities of 3.11 million barrels per day. Although these capacities were not reduced so much in FY2024, business operations with focus on securing margins were continued. The operation rate of refineries (including the impact of regular repairs) in FY2024 was high at 88% for COSMO ENERGY HD, followed by Idemitsu Kosan's 77% and ENEOS HD's 69%. Efforts aimed at improving operation rates are progressing; even though Idemitsu Kosan saw some facility failure, the percentage of unscheduled suspension decreased to 5% for ENEOS HD.

### 2. Financial Results

Operating income of the Companies combined for FY2024 (gross profit less SG&A expenses for ENEOS HD; the same applies hereafter) dropped 39.7% over the year to 533.7 billion yen mainly due to the posting of inventory valuation losses as a result of a fall in crude oil prices (Chart 1). Even when excluding inventory valuation effects, the income showed a 14.3% drop to 652.0 billion yen because of special factors pertaining to ENEOS HD, which will be discussed later, and also other factors including lower profits in the resource business due to falling resource prices and worsening margins on petrochemical products. On a separate note, when time lag effects are excluded, domestic petroleum product margins are improving, contributing to solid earnings capacity as a whole.

Looking at individual companies' performance, ENEOS HD reported a sharp drop in profits largely due to the reclassification of the metals business to a discontinued operation after JX Advanced Metals Corporation ("JXAM") was converted from a subsidiary to an equity-method affiliate with the sale of a portion of its shares. The recording of an impairment loss on goodwill that arose from the business integration with TonenGeneral Sekiyu K.K. and an impairment loss in the renewable energy business also worked negatively. For Idemitsu Kosan, not only the coal business saw a sharp drop in profits due to falling coal prices, but also factors like deteriorating earnings in the basic chemicals business and a decline in export volume in the petroleum business pushed down overall profits. COSMO ENERGY HD was the only one among the Companies to have achieved growth in operating income, excluding inventory valuation effects, thanks to earnings improvement in the petrochemical business through cost reductions and other factors, while the income grew in the oil exploration and production business with an increase in production volume.

On the financial front, interest-bearing debt of the Companies combined as of the end of FY2024 decreased from 4,526.8 billion yen a year before to 3,920.0 billion yen, owing largely to the aforementioned sale of JXAM shares by ENEOS HD (debt reduction through deconsolidation and sale proceeds). On the other hand, despite the accumulation of periodic profits, equity capital of the Companies combined (equity attributable to owners of the parent for ENEOS HD; the same applies hereafter) decreased marginally due to an increase in shareholder returns, including share buybacks. Consequently, D/E Ratio of the Companies combined, i.e. the ratio of interest-bearing debt to equity capital, came to 0.7x as of the end of FY2024, as opposed to 0.8x a year before (Chart 2). Moreover, the ratio of interest-bearing debt to EBITDA of the Companies combined, excluding inventory valuation effects, for FY2024 stood at 3.2x, improving from FY2023's 3.5x. (Note regarding equity capital and interest-bearing debt: Entirely after the evaluation of equity content of ENEOS HD's subordinated bonds)

### 3. Highlights for Rating

For FY2025's operating income excluding inventory valuation effects, ENEOS HD and COSMO ENERGY HD expect an increase while Idemitsu Kosan projects a decrease. A likely major factor behind income growth for ENEOS HD is the elimination of one-off factors seen in FY2024, including the impairment loss on goodwill. Meanwhile, the Companies as a whole expect lower income in the resource businesses due to a fall in resource prices and also assume that cost increases resulting from inflation will drag down profits. As regards domestic petroleum product margins, while a negative time lag due to a decline in crude oil prices is anticipated, real margins excluding such impact will likely stay firm and support the performance of individual companies.

As regards crude oil prices, which affect the Companies' performance, ENEOS HD assumes the Dubai crude oil price to be USD 75 per barrel, and Idemitsu Kosan and COSMO ENERGY HD USD 65, all anticipating a drop from FY2024's USD 79. Currently, the price has weakened to the lower USD 60 level due to uncertainties in global economy and the phase-out of production cuts by OPEC members and non-member oil producers (OPEC Plus). Crude oil prices are highly volatile to begin with and are expected to keep fluctuating into the future because of various factors including the demand-supply balance and geopolitical risks. As such, future prospects for global economy, trends in oil production by OPEC Plus, changes in the Middle East situation and so forth need to be watched.

JCR predicts that profits will accumulate further going forward on the back of stable earnings capacity, mainly in the oil business. However, as the Companies are all aggressive about shareholder returns, the increase in equity capital will likely remain moderate. Moreover, energy transitions and other investments are expected to gain momentum over the medium to long term. Whether the Companies can maintain a certain level of financial soundness while balancing investment and shareholder returns will be watched.

Masayoshi Mizukawa, Naoki Muramatsu

(Chart 1) Financial Results of Oil Distributors

(JPY 100 mn, %)

		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)	FY2023	87,192	3,463	3,852	2,285	525	2,938	2.6
	FY2024	91,902	1,621	2,147	1,040	-299	1,920	1.1
	FY2025F	79,000	370	560	500	-1,000	1,370	0.6
COSMO ENERGY HD (5021)	FY2023	27,295	1,492	1,616	820	-6	1,498	3.0
	FY2024	27,999	1,282	1,507	576	-308	1,590	2.1
	FY2025F	25,800	1,230	1,210	530	-440	1,670	2.1
		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)	FY2023	138,566	3,889	4,649	2,881	717	3,932	2.1
	FY2024	123,224	2,432	1,060	2,260	-576	1,636	1.8
	FY2025F	117,000	N.A.	3,600	1,850	-500	4,100	1.6
		Net Sales	Operating Income		Net Income	Inventory Valuation Effects	Operating Income less Inventory Valuation Effects	Net Income/ Net Sales
Total	FY2023	253,054	8,844		5,986	1,236	7,608	2.4
	FY2024	243,126	5,337		3,877	-1,183	6,520	1.6
	FY2025F	221,800	N.A.		2,880	-1,940	N.A.	1.3

Notes:

- Figures for FY2025 are forecasts announced by the respective companies.
- Figures for ENEOS HD are based on IFRS.
- Only ENEOS HD uses "Gross Profit less SG&A Expenses" for "Operating Income" in "Total."
- "Net Income" in "Total" is the 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)

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/ EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
Idemitsu Kosan (5019)	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
	FY2024	17,203	11,663	0.7	3,191	3.7	4,767	-1,185
COSMO ENERGY HD (5021)	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
	FY2024	5,847	6,169	1.1	2,233	2.8	1,371	-1,456
		Equity Attributable to Owners of the Parent	Interest-bearing Debt	D/E Ratio	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/ EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
ENEOS HD (5020)	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
	FY2024	33,006	21,367	0.6	6,894	3.1	5,768	1,307
		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA less Inventory Valuation Effects	Interest-bearing Debt/ EBITDA less Inventory Valuation Effects	Operating Cash Flow	Investing Cash Flow
Total	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
	FY2024	56,058	39,200	0.7	12,320	3.2	11,906	-1,334

Notes:

- "Interest-bearing Debt" is the sum of corporate bonds and borrowings for ENEOS HD; and the sum of borrowings, corporate bonds and CP for Idemitsu Kosan and COSMO ENERGY HD.
- "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.
- "Equity Capital" in "Total" is the 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

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