

Highlights of Major Milling Companies' Financial Results for Fiscal Year Ended March 2022

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 2022 (FY2021) and earnings forecasts for FY2022 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 trends

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

Wheat international market prices have been in the historically-high 11 U.S. dollars per bushel range. Because of the fact that Russia's invasion of Ukraine has led to a decline in exports from the two major exporters, and the unseasonable weather conditions around the world, uncertainty over wheat supply is rising. In the April 2022 period (April 2022 through September 2022), the government resale price of imported wheat based on the weighted average of five brands (including tax) was 72,530 yen per ton, up 17.3% from the previous period. The price increased more than 10% for the second consecutive period. Following this, the major flour milling companies announced that they will revise flour prices for both household and commercial use from June. As shown by the prolongation of the invasion of Ukraine as well as India's announcement of an export ban to prioritize domestic supply, the future of grain prices is very uncertain. If the market prices rise further, price hikes may continue going forward.

2. Financial Results

The Companies' FY2021 results based on simple sum achieved increases in both sales and income, with net sales of 1,288.7 billion yen (up 1.9% year on year) and an operating income of 46.3 billion yen (up 2.6% year on year). In the flour milling business, the Companies secured an increase in income thanks to a recovery in commercial-use products, which fell due to the COVID-19 pandemic, and solid bran prices. Meanwhile, income declined in the food business of all the Companies, affected by cost increases. In particular, Showa Sangyo, which handles edible oils, saw large declines in profits because of a delay in selling price pass-through for surged raw material prices of soybeans, oilseed rape, etc.

Looking at the financial indicators of the Companies at the end of FY2021, there is no significant change from end-FY2020. NISSHIN SEIFUN GROUP and NIPPON are planning to construct new flour milling plants. However, their financial burden is assumed to be basically within the scope of operating cash flow in the medium term, and JCR does not expect each of the Companies' financial structure to deteriorate significantly.

3. Highlights for Rating

There is difference in the direction of the FY2022 earnings forecasts among the Companies. NISSHIN SEIFUN GROUP forecasts higher sales and income, with net sales of 760 billion yen (up 11.8% year on year) and an operating income of 30 billion yen (up 1.9% year on year). On the other hand, NIPPON expects an increase in sales but a decrease in income, with net sales of 355 billion yen (up 10.5% year on year) and an operating income of 10.1 billion yen (down 10.5% year on year). Both companies are factoring in higher raw materials costs, but NISSHIN SEIFUN GROUP expects to see an increase in income with the recovery of performance in the overseas flour milling business. Showa Sangyo has not announced the full-year earnings forecast because of strong uncertainty over the future, including high prices of raw material grains and exchange rate trends, among others.

Domestically, JCR is paying attention to the progress made in price pass-through in the food business. Costs, including raw material prices, are also expected to increase in FY2022. On the other hand, as consumer preference for savings is deeply entrenched, the price pass-through may fail to

penetrate. This is an issue not only for this industry but also for food manufacturers in general. In addition to raising prices of existing products, it is becoming important to expand sales of value-added products and develop new products at reasonable prices in response to consumer needs.

Strengthening the overseas business is an issue in the medium term. As shown by the overseas sales rate of 27% in FY2021, NISSHIN SEIFUN GROUP is leading ahead of peers in terms of overseas expansion. However, for Australian business, the company is facing weak demand for in-store bakeries, its main customers, and booked an impairment loss in FY2021. Going forward, it will be important to improve profitability by recovering sales and raising productivity. NIPPON is developing its business mainly in the U.S. and ASEAN. It plans to expand its sales bases and areas in the U.S., while scheduling to start operating a manufacturing plant in Indonesia in 2023. Showa Sangyo has moved into the flour milling and feed (for chicken eggs) businesses in Taiwan. While the weight of the overseas businesses is small for the both companies, JCR will check progress in initiatives and whether the companies can lead them to the medium- to long-term growth.

Hajime Inoue, Mariko Miura

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

(JPY 100 mn, %)

		FY2019 (Actual)	FY2020 (Actual)	FY2021 (Actual)	FY2022 (Forecast)		FY2019 (Actual)	FY2020 (Actual)	FY2021 (Actual)
NISSHIN SEIFUN GROUP (2002)	Net Sales	7,121	6,794	6,797	7,600	Equity Capital	3,949	4,330	4,492
	Operating Income	288	271	294	300	Interest-bearing Debt	533	769	406
	Operating Margin	4.1	4.0	4.3	3.9	Equity Ratio	59.3	63.0	62.1
NIPPON (2001)	Net Sales	3,448	3,295	3,213	3,550	Equity Capital	1,537	1,642	1,741
	Operating Income	111	103	113	101	Interest-bearing Debt	633	701	687
	Operating Margin	3.2	3.1	3.5	2.8	Equity Ratio	52.9	53.3	53.4
Showa Sangyo (2004)	Net Sales	2,540	2,559	2,876	-	Equity Capital	853	996	1,057
	Operating Income	88	75	56	-	Interest-bearing Debt	293	454	518
	Operating Margin	3.5	3.0	1.9	-	Equity Ratio	49.2	46.7	45.7
Total	Net Sales	13,110	12,650	12,887					
	Operating Income	487	451	463					
	Operating Margin	3.7	3.6	3.6					

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

(Chart 2) Operating Income of Flour Milling Segment

(JPY 100 mn)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022F
NISSHIN SEIFUN GROUP	98	100	92	93	63	85	92
NIPPON	40	52	55	57	51	62	54
Showa Sangyo	29	24	30	29	17	35	-

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

(Chart 3) Operating Income of Foods Segment

(JPY 100 mn)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022F
NISSHIN SEIFUN GROUP	124	135	134	146	166	155	156
NIPPON	67	44	52	49	42	40	37
Showa Sangyo	50	32	45	48	47	15	-

(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. FY2022 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

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