

Highlights of Oil Distributors' Financial Results for Fiscal Year Ended March 2023

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 2023 (FY2022) and earnings forecasts for FY2023 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 in FY2022 was USD 93 per barrel, up USD 15 from FY2021. It stayed high at over USD 100 in the April-July 2022 period partly because of sanctions associated with Russia's invasion of Ukraine. However, after reaching its peak in June, it began to decline slowly, owing to factors like a drop in oil demand due to China's zero-COVID policy on top of the release of oil stockpiles by multiple nations, and fell below USD 80 in December. Although it recovered to over USD 80 in January to February 2023 on the back of expectation for a turnaround in demand with China's shift from the zero-COVID policy, it fell again to below USD 80 in March as market prices lacked buoyancy due to concerns of economic slowdown amid interest rate hikes in Europe and the U.S.

Although domestic demand for petroleum products, which plunged in the wake of the COVID crisis, bounced back in FY2021 with year-on-year growth for the first time in nine years, it fell again in 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 FY2022 was 150.82 million kl, down 1.9% from the previous year. While gasoline increased slightly by 0.6% to 44.77 million kl, naphtha and gas oil dropped 8.2% and 1.3% over the year, respectively. Domestic demand for petroleum products is expected to remain almost flat in FY2023 with recovery in demand for naphtha and gas oil, etc. Yet, the long-term downward trend will remain unchanged; not only this, the pace of demand decline is also assumed to accelerate to realize carbon neutrality.

In FY2022, as ENEOS HD decommissioned some facilities at the Negishi Refinery, atmospheric distillation capacities of domestic refineries at the year-end were 3.7% lower than the previous year-end. The average operation rate of domestic refineries appears to have grown from 73.4% in FY2021 to around 80% in FY2022. COSMO ENERGY HD's refinery operation rate remained high compared to the other two by topping 90%. Meanwhile, the Companies experienced various facility troubles, small and large, at their refineries.

2. Financial Results

Operating income of the Companies combined for FY2022 (gross profit less SG&A expenses for ENEOS HD; the same applies hereafter) was 703.5 billion yen, worsening for the first time in three years with a 49.0% year-on-year drop (Chart 1). While the oil exploration and production business continued to achieve income growth thanks to rising crude oil prices, the profitability of petroleum products weakened due in part to a decrease in gains on inventory valuation and the elimination of positive time lag effects. Even when excluding inventory valuation factors, operating income of the Companies combined for FY2022 comes to 591.4 billion yen, down 16.1% from the previous year.

By company, ENEOS HD suffered a greater rate of a decrease in income on a consolidated basis than the other two; as factors behind this, losses in the petrochemical product and electricity businesses expanded, and the metals business' income shrank partly due to valuation loss associated with the decision to sell partial interest in Caserones Copper Mine. Idemitsu Kosan was the only one in three companies to achieve higher operating income excluding inventory valuation factors thanks to sharp income growth in the coal business with a rise in coal prices. COSMO ENERGY HD saw the highest income growth in the oil exploration and production business, which covered roughly 70% of income decline in the oil and petrochemical businesses.

On the financial front, interest-bearing debt of the Companies combined grew due in part to an increase in working capital as a result of a rise in crude oil prices. However, growth in equity capital (equity attributable to owners of the parent for ENEOS HD; the same applies hereafter) was smaller than debt

increase because of a decrease in net income and expansion of shareholder returns. Consequently, the ratio of interest-bearing debt to equity capital came to 1.0x in FY2022, somewhat weakening from FY2021's 0.9x. Moreover, the ratio of interest-bearing debt to EBITDA excluding inventory valuation factors of the Companies combined for FY2022 stood at 4.5x, worsening from FY2021's 3.6x. (Note regarding equity capital and interest-bearing debt: after evaluation of the equity content of ENEOS HD's subordinated bonds and COSMO ENERGY HD's subordinated loans for FY2021 and after evaluation of the equity content of ENEOS HD's subordinated bonds for FY2022.)

3. Highlights for Rating

For FY2023, Idemitsu Kosan and COSMO ENERGY HD project a decline in both operating income and operating income excluding inventory valuation factors as the income is expected to shrink in the oil exploration/production and coal businesses due to a drop in resource prices. ENEOS HD on the other hand forecasts higher operating income (IFRS; the same applies hereafter)) and operating income excluding inventory valuation factors partly because an increase in production volume will help boost the profitability of petroleum products and the valuation loss reported for the metals business in the previous year will be eliminated. Given that domestic petroleum products' margins excluding time lag effects are stable, JCR assumes that the Companies' performance excluding inventory valuation factors will remain solid.

Crude oil prices will continue to affect the Companies' performance in FY2023 as well. For FY2023, ENEOS HD and Idemitsu Kosan assume the Dubai crude oil price to be USD 80 per barrel and COSMO ENERGY HD USD 85, down USD 13 and USD 8 from FY2022, respectively. The actual price in FY2023 stayed roughly over USD 80 in April and has been at the USD 70 level so far in May. Not only crude oil prices are highly volatile to begin with, but they have also been affected by diverse factors, including recent years' trends in demand, Ukraine situations, coordinated production cuts by OPEC members and non-OPEC oil-producing countries and geopolitical risks in oil-producing countries, and have become even more unpredictable. Various factors are assumed to keep affecting them into the future, which thus requires attention.

Under the medium-term management plan launched in FY2023 for all three of them, the Companies intend to maintain and even expand high shareholder returns, and thus an increase in equity capital will likely be curbed. Moreover, as capital spending and other investments are expected to increase to expand new business domains, JCR assumes that interest-bearing debt will remain high. While the current level of financial soundness is projected to be maintained, it is hardly likely to improve further for the time being. Looking ahead, JCR will keep an eye on any possibility of a decline in financial soundness due to the measures taken to respond to changes in the management environment, changes in the cash flow plan and so forth.

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 Effect	Operating Income less Inventory Valuation	Net Income/ Net Sales
Idemitsu Kosan (5019)	FY2021	66,867	4,344	4,592	2,794	2,322	2,012	4.2
	FY2022	94,562	2,824	3,215	2,536	557	2,267	2.7
	FY2023F	83,000	1,400	1,500	1,000	▲300	1,700	1.2
COSMO ENERGY HD (5021)	FY2021	24,404	2,353	2,330	1,388	723	1,630	5.7
	FY2022	27,918	1,637	1,645	679	216	1,421	2.4
	FY2023F	26,700	1,235	1,250	550	0	1,235	2.1
Fiscal Period		Net Sales	Gross Profit less SG&A Expenses	Operating Income	Profit Attributable to Owners of the Parent	Inventory Valuation Effect	Operating Income less Inventory Valuation	Net Income/ Net Sales
ENEOS HD (5020)	FY2021	109,217	7,107	7,859	5,371	3,703	4,156	4.9
	FY2022	150,165	2,572	2,812	1,437	348	2,464	1.0
	FY2023F	134,000	N.A.	3,400	1,800	0	3,400	1.3
Fiscal Period		Net Sales	Operating Income	–	Net Income	Inventory Valuation Effects	Operating Income less Inv. Valuation Effects	Net Income/ Net Sales
Total	FY2021	200,489	13,805	–	9,555	6,758	7,047	4.8
	FY2022	272,647	7,035	–	4,653	1,121	5,914	1.7
	FY2023F	243,700	N.A.	–	3,350	▲300	N.A.	1.4

Notes:

1. Figures for FY2023 are forecasts announced by the respective companies.
2. Figures for ENEOS HD are based on IFRS.
3. "Operating Income" in "Total" is "Gross Profit less SG&A Expenses" for ENEOS HD.
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 above companies)

(Chart 2) Financial Conditions of Oil Distributors

(JPY 100 mn, times)

Fiscal Period		Equity Capital	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Factors	Interest-bearing Debt/EBITDA less Inventory Valuation Factors	Operating Cash Flow	Investing Cash Flow
Idemitsu Kosan (5019)	FY2020	11,509	12,797	1.1	2,545	5.0	1,704	▲1,098
	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
COSMO ENERGY HD (5021)	FY2020	3,399	5,943	1.7	1,351	4.4	1,674	▲845
	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

Fiscal Period		Equity Attributable to Owners of the Parent	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Factors	Interest-bearing Debt/EBITDA less Inventory Valuation Factors	Operating Cash Flow	Investing Cash Flow
ENEOS HD (5020)	FY2020	23,251	20,369	0.9	5,756	3.5	6,790	▲3,067
	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

Fiscal Period		Equity Capital	Interest-bearing Debt	DER	EBITDA less Inventory Valuation Factors	Interest-bearing Debt/EBITDA less Inventory Valuation Factors	Operating Cash Flow	Investing Cash Flow
Total	FY2020	38,159	39,110	1.0	9,652	4.1	10,170	▲5,012
	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

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 for FY2021 and FY2022 are amounts after evaluation of subordinated bonds' equity content.
7. "Equity Capital" and "Interest-bearing Debt" of COSMO ENERGY HD for FY2020 and FY2021 are amounts after evaluation of subordinated loans' equity content.
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 above 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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