

## Highlights of General Trading Companies' Financial Results for Fiscal Year Ended March 2022

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 2022 (FY2021) and earnings forecasts for FY2022 of Japan's six general trading companies (collectively, the "Companies" or the "Six Companies"): Mitsubishi Corporation ("Mitsubishi"), SUMITOMO CORPORATION ("SUMITOMO"), MITSUI & CO., LTD. ("MITSUI"), Marubeni Corporation ("Marubeni"), ITOCHU Corporation ("ITOCHU") and Sojitz Corporation ("Sojitz").

### 1. Industry Trend

In the resources sector, price increased significantly. For example, copper (price per ton; the same applies hereafter) surged from the USD 6,000 range in FY2020 to the USD 9,000 range in FY2021, coking coal from about USD 120 to around USD 300, thermal coal from a little below USD 70 to about USD 180, and crude oil (per barrel) from the USD 40 range to around USD 80. Behind the rises in resource prices are sharp demand increases driven by the recovery from the COVID-19 pandemic. In some cases, new resource-related investments have been restrained due to rising environmental awareness, such as CO<sub>2</sub> reductions. Currently, prices of thermal coal and so forth have risen further because of Russia's invasion of Ukraine. There are differences in the impact of price increases among the Companies. At MITSUI, net income attributable to owners of the parent (net income) in FY2021 was positively affected, with 62 billion yen for iron ore, 61 billion yen for coal, and 62 billion yen for crude oil and gas. Resource prices are susceptible to global political and economic changes, and it is difficult to forecast them highly accurately. JCR needs to continue to closely monitor market trends.

Each of the Companies is continuing to make aggressive new investments and developing new earnings sources. The total amount of new investments made by the Six Companies has been in the 2 trillion yen range. In recent years, as there have been many large-scale projects that exceed 100 billion yen for an investment project, attention should be paid to the diversification of investment projects. In parallel with making new investments, the Companies are also actively working on investment recovery. Such continual asset replacements are a major characteristic of general trading companies. Some of the recovery projects are aimed at withdrawing from inefficient investments, but some are aimed at divesting businesses that are peaking out on the more favorable conditions from the perspective of the business life cycle. Marubeni in FY2021 made new investments of 93.5 billion yen, whereas the recoveries such as the sales of the power generation business and the North America's natural salmon/trout business, etc., amounted to 129.5 billion yen, which suggests that funds for new investments are covered by the recovery of existing investments. In addition, Marubeni plans the divestiture of the grain business of U.S. Gaviion Agriculture Investment, Inc. in FY2022, and funds to be recovered including working capital are expected to reach 300 to 400 billion yen.

### 2. Financial Results

The total net income of the Six Companies in FY2021 was 3,642.8 billion yen (up 261.9% year on year), a significant increase, and all of the Companies hit a record high. In the resources sector, price rises provided a tailwind, and in the non-resources sector, many businesses benefited from economic recovery from the COVID-19 pandemic. However, differences in the Companies' business portfolios have led to differences in financial results. Mitsubishi and MITSUI, which have an advantage in the resources sector over peers, enjoyed remarkable benefits from the resource price hikes, and both achieved a net income in the 900 billion yen range. ITOCHU, which boasts the industry's largest profits in the non-resources sector, reported a net income in the 800 billion yen range mainly derived from the non-resources sector. SUMITOMO recorded a net loss in FY2020 due to disposition of large losses, which, however, recovered to the 400 billion yen range in FY2021.

Looking at the financial figures for the total of the Six Companies, net interest-bearing debt decreased by approximately 210 billion yen, and shareholders' equity (total equity minus non-controlling interests) increased by about 4,390 billion yen. As a result, net DER improved by 0.16 points from the end of the

previous fiscal year to 0.63x. Net interest-bearing debt declined at Mitsubishi, SUMITOMO and ITOCHU, while increasing at MITSUI, Marubeni and Sojitz. There are small gaps in moves among the Companies. Shareholders' equity increased at all of the Companies. In addition to the accumulation of profits, there was a large positive impact from fluctuations in foreign exchange rates and financial asset valuations. At ITOCHU, for example, shareholders' equity increased by 883 billion yen, positively affected, with 251.6 billion yen in foreign exchange fluctuations and 107.8 billion yen in the value of financial assets. General trading companies have a large amount of foreign currency-denominated assets associated with overseas investments and financial assets related to investment businesses, and there are many cases where their equity capital is affected by these evaluations, which warrant attention.

### 3. Highlights for Rating

For FY2022, in the resources sector, prices may decline slightly in some commodities, and in the non-resources sector, profits, which had been strong in the previous period, may be affected by a reactionary decline. As a result, the total net income of the Six Companies is forecast to decrease 12.0% year on year to 3,205 billion yen. Although five Companies excluding Sojitz plan to see a decline in income, the earnings of the Six Companies overall are expected to be steady in many businesses, and a high level of profits will likely continue to be secured. The ratio between the resources and non-resources sectors in the net income varies from Company to Company. Assuming the current resource prices, the majority of the net income of Mitsubishi and MITSUI is from the resources sector. The resources sector is susceptible to price fluctuations, and profits are easy to fluctuate. On the other hand, although some businesses in the non-resources sector are affected by price fluctuations, the sector's profits are stable compared to those of the resources sector. Many of the Companies are aiming to further strengthen earnings in the non-resources sector, and JCR is paying attention to their progress.

On the financial side, many of the Companies are controlling their net DER slightly below 1x. There has been no change in the Companies' stance of emphasizing their financial position, and JCR sees that the Companies will continue maintaining their net DER at the current level by securing positive free cash flow.

Developing operations in a wide range of business fields, general trading companies inevitably incur a certain scale of losses every period. New investments, in particular, are more prone to losses in comparison to existing businesses, affected by changes in the external environment. Recent examples of large losses reported were those by Marubeni in FY2019 and SUMITOMO in FY2020, both of which fell into a net loss. In FY2021, losses related to Russia (LNG and oil development, aircraft leasing, etc.) were booked at each of the Companies, but the impact on profit/loss finances was not significant. At present, although Russia-related exposures differ among the Companies, JCR judges that the amount is within a reasonable level. Since each of the Companies continues to review its assets, the amount of losses will likely be within its financial strength. That said, risk management remains to be an important management issue.

Risk management against unexpected losses is also important for general trading companies, which operates a wide range of businesses. Many of the Companies calculate the risk-weighted assets (maximum amount of losses expected under certain conditions) and manage them by balancing the amount with equity capital, etc. as a risk buffer (risk-weighted assets/ risk buffer). As of the end of FY2021 all three Companies that disclose their risk assets (SUMITOMO, ITOCHU and Sojitz) secured a certain level of leeway for 1x.

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### (Chart 1) Consolidated Business Performance

(JPY 100 mn)

	Mitsubishi (8058)			SUMITOMO (8053)			MITSUI (8031)		
	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F
Revenues	128,845	172,648	-	46,450	54,950	-	80,102	117,575	-
Operating Income	2,073	7,187	-	505	2,956	-	2,050	5,450	-
Net Income	1,725	9,375	8,500	-1,530	4,636	3,700	3,354	9,147	8,000

	Marubeni (8002)			ITOCHU (8001)			Sojitz (2768)		
	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F
Revenues	63,324	85,085	-	103,626	122,933	-	16,024	21,007	-
Operating Income	1,415	2,844	-	4,034	5,825	5,900	270	910	900
Net Income	2,232	4,243	4,000	4,014	8,202	7,000	270	823	850

	Total		
	FY2020	FY2021	FY2022F
Revenues	438,373	574,200	-
Operating Income	10,349	25,174	-
Net Income	10,066	36,428	32,050

Notes:

1. Operating income = Gross profit minus SG&A expenses
  2. FY2022 forecasts are as announced by each of the Companies
- Source: Prepared by JCR based on financial materials of the Companies

### (Chart 2) Consolidated Financial Structure

(JPY 100 mn, times)

	Mitsubishi			SUMITOMO			MITSUI		
	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F
Net Interest-bearing Debt	41,784	39,397	-	23,004	22,737	-	32,997	33,389	-
Equity Capital	56,136	68,802	-	25,279	31,978	-	45,704	56,052	-
Net DER	0.74	0.57	-	0.91	0.71	-	0.72	0.60	-

	Marubeni			ITOCHU			Sojitz		
	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F	FY2020	FY2021	FY2022F
Net Interest-bearing Debt	16,878	18,599	-	26,013	22,830	-	6,106	7,702	8,000
Equity Capital	18,147	22,421	-	33,162	41,993	-	6,191	7,280	7,600
Net DER	0.93	0.83	-	0.78	0.54	-	0.99	1.06	1.05

	Total		
	FY2020	FY2021	FY2022F
Net Interest-bearing Debt	146,785	144,656	-
Equity Capital	184,621	228,527	-
Net DER	0.80	0.63	-

Notes:

1. Equity capital = Total equity minus Non-controlling interests
  2. Net DER = Net interest-bearing debt/ Equity capital
  3. FY2022 forecasts are as announced by each of the Companies
- Source: Prepared by JCR based on financial materials of the Companies

<Reference>

Issuer: ITOCHU Corporation

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Marubeni Corporation

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Sojitz Corporation

Long-term Issuer Rating: A- Outlook: Stable

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