

Highlights of Major General Chemical Manufacturers' 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 6 general chemical manufacturers: ASAHI KASEI CORPORATION, Showa Denko K.K. (with January-December accounting period), SUMITOMO CHEMICAL COMPANY, LIMITED, TOSOH CORPORATION, Mitsui Chemicals, Inc., and Mitsubishi Chemical Holdings Corporation ("Mitsubishi Chemical HD").

1. Industry Trend

With regard to basic materials, the average utilization rate of domestic ethylene centers in FY2021 was 94.3% (FY2020 average 93.9%). Although it fell below the 95% level of actual full capacity utilization, the monthly utilization rate consistently exceeded 90%, which is the standard for high capacity utilization. Despite the lingering effects of the COVID-19 pandemic, production activity in the manufacturing sector and stay-at-home demand remained strong, and product market conditions were generally favorable. In addition, supply-demand balance for basic chemicals and synthetic fiber materials tightened due to firm demand and the impact of the record-breaking cold wave that hit North America in February 2021. As a result, market prices for many products rose toward the middle of the fiscal year, with some products reaching historically high levels. On the other hand, raw material and fuel prices rose due to the recent deterioration in the Russian-Ukrainian situation, in addition to increased demand accompanying the recovery of economic activity. The price of naphtha (per kiloliter) rose from 38,800 yen in the January-March 2021 period to 47,700 yen in the April-June 2021 period and to 64,600 yen in the January-March 2022 period.

The trend for functional products varied by demand area. In the automotive sector, global supply chain disruptions and semiconductor shortages had a negative impact on production, pushing down the recovery in demand for high performance materials for the automotive sector compared to initial expectations. On the other hand, global move toward carbon neutrality has further strengthened electrification of automobiles, and demand for lithium-ion rechargeable battery materials remained strong. However, in response to the market growth, suppliers, including those in China and South Korea, have been stepping up production. As for electronics, the market remained strong, continuing the expansion from the previous fiscal year. Under these circumstances, demands for high-purity chemicals and manufacturing process-related products for semiconductors and functional films were strong. Food and healthcare products were generally stable. However, rise in raw material and fuel prices in the latter half of the fiscal year became a negative factor for profitability of functional products in general.

2. Financial Results

EBITDA* of the 6 companies in total for FY2021 (fiscal year ended December 2021 for Showa Denko) was 1.8 trillion yen (up 33.8% year-on-year), a record high. In addition to strong demand in the fields of semiconductor and other electronics-related products, businesses and products in which each company has strengths, such as automotive, healthcare, and agriculture-related businesses, performed well. In addition, high market prices and inventory valuation gains for basic materials boosted performance and cash flow. However, developments toward the latter half of the fiscal year such as calming down of market for basic materials, rise of raw material and fuel prices, and China's reinforcement of measures against COVID-19 pandemic, resulted in a slight slowdown in business results in the fourth quarter of FY2021.

In terms of operating income by individual company (core operating income in the case of IFRS), all 6 companies secured an increase, with TOSOH and Mitsui Chemicals posting record highs. TOSOH's income was boosted by higher income in Chlor-Alkali business thanks to rising overseas markets for vinyl chloride resin, caustic soda, and urethane raw materials, as well as a significant increase in profit of functional products with a recovery in demand for key products. At Mitsui Chemicals, although automobile-related products were affected by shortage of parts and materials, vision care materials, dental materials, ICT materials, and agrochemicals remained strong. In addition, overseas market conditions for bisphenol-A remained at high levels against a backdrop of tight supply-demand conditions,

which was a major positive factor. The remaining 4 companies also generally recovered to the profit levels at the time of their strong performance. However, there were some notable cases in which the results came in below the full-year forecasts, which were revised upward during the period.

The net interest-bearing debt of the 6 companies in total as of the end of FY2021 (after consideration of equity content of hybrid financing; the same applies hereinafter) was 4.4 trillion yen, having hovered around 3 trillion yen from the 2000s through FY2018 and then rising to 4.6 trillion yen at the end of FY2020 due to aggressive growth investments by the companies. In FY2021, the amount turned to decrease due to strong performance of each company and the effect of sale of business. On the other hand, total equity capital (equity attributable to owners of the parent under IFRS) of the 6 companies at the end of FY2021 was 6.6 trillion yen, a significant increase from 5.6 trillion yen at the end of FY2020. In addition to profit accumulation, this was mainly due to an improvement in foreign currency translation adjustments as a result of the weaker yen. Equity capital had been in the range of 2 to low 3 trillion yen during the 2000s and early 2010s. Despite the impacts of changes in accounting standards and foreign exchange, financial durability of the industry as a whole has been significantly strengthened compared to the past.

* Gross profit – SG & A expenses + depreciation expenses is used under IFRS

3. Highlights for Rating

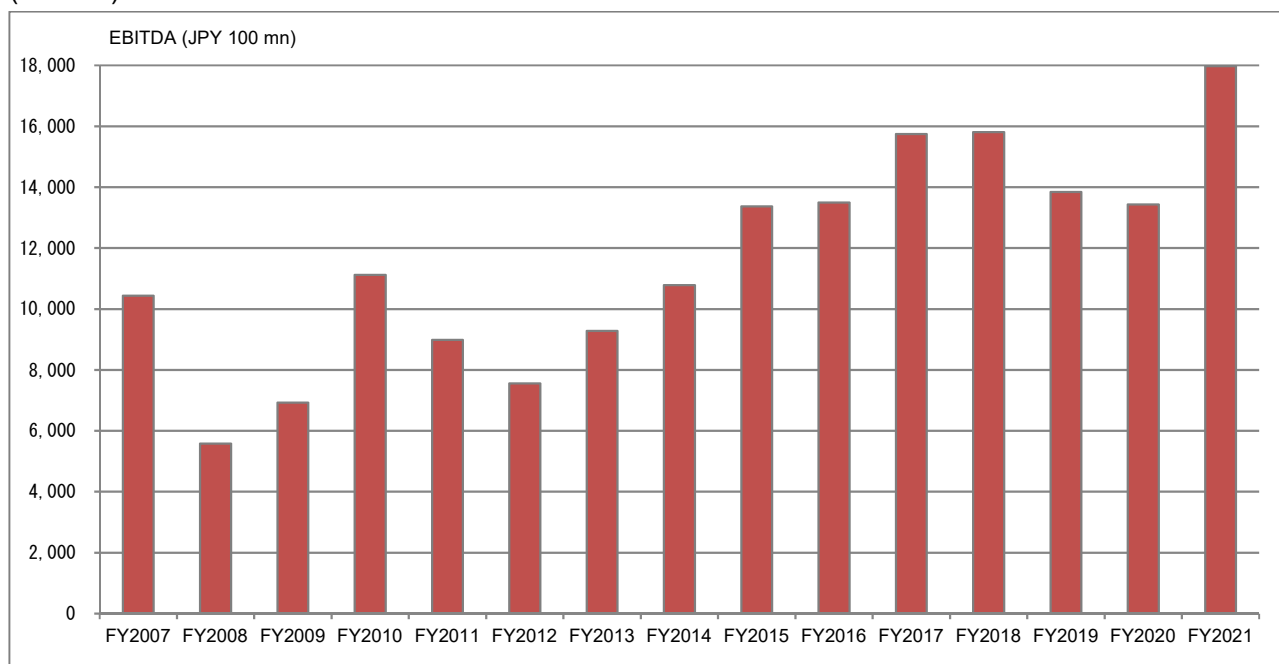
As for each company's initial forecasts for FY2022 performance, ASAHI KASEI and Mitsubishi Chemical HD are forecasting higher profits, while Showa Denko, SUMITOMO CHEMICAL, and Mitsui Chemicals are forecasting lower profits. TOSOH is undecided, citing difficulties in making a reasonable calculation. Even in the case of profit increase forecasts, the increase in profit is expected to be modest, and the overall view is that it will be subject to downward pressure. In terms of demand for functional products, electronics-related demand is expected to remain strong, while automotive-related demand is expected to pick up in line with recovery of finished vehicle production. In addition, food-related packaging materials are expected to remain stable. However, higher raw material and fuel prices will be a major negative factor. Furthermore, profitability of basic materials is expected to deteriorate for all companies due to reaction to the high market prices and the elimination of inventory valuation gains, both of which were seen and recorded in the previous fiscal year.

The most important factor to watch in terms of performance in FY2022 is trend in raw material and fuel prices. The industry as a whole is more willing to pass on prices than in the past, and the increasing use of formulas for determining prices is a positive factor from a performance standpoint. However, if raw material and fuel prices rise further in the future, resistance from customer side is expected to intensify, and a time lag in price pass-on may remain. The second point is trend in automobile production. The supply-demand balance for semiconductors for automobiles has remained tight since the COVID-19 outbreak due to increased demand for information equipment and disruptions in the supply chain. The key point in FY2022 will be how much profit expansion in functional products can offset the decline in profits from basic materials. However, a delay in the recovery of automobile production could limit business performance. The third point is geopolitical risk situation. Although direct impact of situation in Russia and Ukraine on the business of general chemical companies is expected to be limited, a stronger global recession could put downward pressure on demand for various products. The COVID-19 pandemic has not yet been resolved, and the business environment will remain uncertain.

Outside of performance, JCR is focusing on two main points. The first point is progress of financial improvement. Financial structure has already begun to improve in cases where interest-bearing debt was significantly increased due to large acquisitions and other factors in recent years, but the companies are still required to improve their financial structure early by acquiring results from growth investments and adhering to investment discipline. The second point is business structural reform. In recent years, companies have been increasingly restructuring their business structures in order to promote growth strategies and decarbonization in the future. Specifically, while they have designated electronics, mobility, healthcare, and environment as growth areas and are accelerating growth by allocating management resources to these areas, they have announced a series of divestitures of and withdrawals from some basic materials businesses. In particular, restructuring of basic materials is not limited to individual companies, but may extend to the industry as a whole in the future. While these moves are basically favorable from a rating perspective, JCR will pay attention to whether they can enhance the competitive advantage and continuity of their business through these moves.

Shigenobu Tonomura, Takeshi Fujita

(Chart 1) Total EBITDA of 6 General Chemical Manufacturers



EBITDA = Operating Income + Depreciation Expenses + Amortization Expenses (Gross profit – SG & A expenses + depreciation expenses under IFRS)

(Chart 2) Consolidated Business/Financial Performance of 6 General Chemical Manufacturers

(JPY 100 mn, times)

		Net Sales	Operating Income	Ordinary Income	Net Income	Interest-bearing Debt	Equity Capital	Total Assets	DER	Equity Ratio
ASAHI KASEI (3407)	FY2020	21,060	1,718	1,780	797	6,589	14,674	29,189	0.45	50.3%
	FY2021	24,613	2,026	2,120	1,618	7,662	16,874	33,490	0.45	50.4%
	FY2022F	27,310	2,105	2,165	1,645	—	—	—	—	—
Showa Denko (4004)	FY2020	9,737	-195	-440	-764	11,728	5,434	22,036	2.16	24.7%
	FY2021	14,196	871	868	-121	9,682	6,514	21,423	1.49	30.4%
	FY2022F	13,500	840	790	270	—	—	—	—	—
TOSOH (4042)	FY2020	7,328	878	951	632	1,265	6,155	9,827	0.21	62.6%
	FY2021	9,185	1,440	1,604	1,079	919	7,089	10,876	0.13	65.2%
	FY2022F	—	—	—	—	—	—	—	—	—

		Sales Revenue	Core Operating Income	Operating Income	Net Income	Interest-bearing Debt	Equity Attrib. to Owners of the Parent	Total Assets	DER	Ratio of Equity Attrib. to Owners of the Parent
SUMITOMO CHEMICAL (4005)	FY2020	22,869	1,476	1,371	460	12,260	11,442	39,902	1.07	28.7%
	FY2021	27,653	2,347	2,150	1,621	12,254	13,431	43,081	0.91	31.2%
	FY2022F	31,200	2,000	1,800	1,250	—	—	—	—	—
Mitsui Chemicals (4183)	FY2020	12,117	851	780	578	5,102	6,079	15,581	0.84	39.0%
	FY2021	16,126	1,618	1,473	1,099	6,660	7,126	19,349	0.93	36.8%
	FY2022F	19,200	1,400	1,380	1,000	—	—	—	—	—
Mitsubishi Chemical HD (4188)	FY2020	32,575	1,747	475	-76	23,495	12,363	52,872	1.90	23.4%
	FY2021	39,769	2,723	3,031	1,771	21,599	14,580	55,738	1.48	26.2%
	FY2022F	44,360	2,750	2,770	1,530	—	—	—	—	—

*1 IFRS for SUMITOMO CHEMICAL, Mitsui Chemicals and Mitsubishi Chemical HD

*2 Core operating income is obtained by excluding non-recurring items from operating income under IFRS.

*3 Net income is net income attributable to shareholders of the parent (JGAAP) or net income attributable to owners of the parent (IFRS).

*4 Interest-bearing debt is the sum of borrowings, corporate bonds and CP. Equity content is considered in cases where there is hybrid financing.

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

<Reference>

Issuer: ASAHI KASEI CORPORATION

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Showa Denko K.K.

Long-term Issuer Rating: A- Outlook: Positive

Issuer: SUMITOMO CHEMICAL COMPANY, LIMITED

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: TOSOH CORPORATION

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Mitsui Chemicals, Inc.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Mitsubishi Chemical Holdings Corporation

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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