

Highlights of Major Cement Companies' Financial Results for Fiscal Year Ended March 2021

The followings 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 2021 (FY2020) and earnings forecasts for FY2021 of Japan's major cement companies*.

* This report is for two major specialized cement companies: Sumitomo Osaka Cement Co., Ltd. ("SOC") and TAIHEIYO CEMENT CORPORATION ("TAIHEIYO"); and three other major companies which also engage in businesses other than cement business: Mitsubishi Materials Corporation ("Mitsubishi Materials"), Ube Industries, Ltd. ("Ube Industries") and Tokuyama Corporation ("Tokuyama"). For the latter three companies, only cement-related businesses are included.

1. Industry Trend

Japan's domestic cement demand for FY2020 fell 5.6% from a year earlier to 38.67 million tons, a decrease of two consecutive years. The demand fell below 40 million tons for the first time in 54 years since FY1966. This was because it was in an idle period for constructions preparing for Tokyo Olympic and Paralympic Games, and also constructions, which are not required to be completed urgently were postponed or cancelled due to COVID-19 pandemic. In addition to a decrease in public civil engineering works in rural areas, which use a large amount of cement, a conceptual problem such as increased number of constructions using precast concrete technique and iron frame requiring less amount of cement due to manpower shortage, also had an impact on it. Exports, on the other hand, increased two consecutive years for FY2020 to 11.11 million tons, up 5.5% from a year earlier. Each company intended to strengthen exports in response to the declining domestic demand.

According to domestic cement demand forecasts for FY2021 published by Japan Cement Association in February 2021, a decrease in domestic demand will likely come to the end as shown that the demand is projected to be 39 million tons. Although demand of public sector will likely be flat, that of private sector will likely recover as capital investments primarily in warehouses and logistics facilities are expected to recover backed by recovering corporate performances. Hereafter, demand relating to redevelopment projects in central Tokyo and the Maglev Chuo Shinkansen line is expected. Despite the fact, there is a strong sense of uncertainty about the status of the pandemic in the future. Due to expansion of the infection, constructions have been postponed or even the construction plans have also been reconsidered in some cases.

2. Financial Results

For the cement-related businesses of the five cement manufacturers for FY2020, the total net sales and operating income stood at 1,654.3 billion yen, down 4.5% from a year earlier, and 96.4 billion yen, down 2.6% from a year earlier, respectively, recording a decrease both in revenues and income. The total operating income was largely affected by the substantial decrease in income reported by Mitsubishi Materials due to decline in coal prices it sells; however, other four companies increased operating income due to fall in prices of coal, which is their main raw material, and others.

For FY2020, SOC reported 239.2 billion yen in net sales, down 2.4% from a year earlier, and 16.6 billion yen in operating income, up 3.1% from a year earlier, recording a decrease in revenues and an increase in income for two consecutive fiscal years with domestic sales volume of 8.29 million tons, down 5.4% from a year earlier, and export volume of 1.42 million tons, up 9.2% from a year earlier. Although there was an impact of decreased sales of cement, sales of electronic materials for semiconductor manufacturing equipment were strong in the High-Performance Product Business in addition to fall in prices of coal, which is a major fuel. TAIHEIYO decreased revenues and increased income as shown that it reported 863.9 billion yen in net sales, down 2.3% from a year earlier, and 63.6 billion yen in operating income, up 4.3% from a year earlier. Domestic sales volume was 13.78 million tons, down 4.8% from a year earlier, and export volume was 3.78 million tons, down 2.2% from a year earlier. Domestic cement-related business decreased income but the cement business in the U.S. was strong. Both SOC and TAIHEIYO exceeded their income projections at the beginning of the fiscal year. The financial structure of the both companies are continuously showing improvement trend due to reduction in interest-bearing debt, an expansion in capital equity through profit accumulation, etc.

3. Highlights for Rating

For the cement-related businesses of the five cement manufacturers' performance projection for FY2021 shows the total net sales to decrease 20.6% from a year earlier to 1,314.3 billion and operating income to decrease 7.5% from a year earlier to 89.1 billion yen. Net sales decreases due to an effect of change in the accounting standards of revenue recognition and others; however, will substantially increase in general since decline in domestic demand is expected to come to the end. Many manufacturers project to decrease operating income due to price hikes of energy resources mainly coal.

For the performance projection for FY2021, SOC expects its income to decrease as shown that it projects net sales to decrease 22.5% from a year earlier to 185.5 billion yen and operating income to decrease 30.9% from a year earlier to 11.5 billion yen. It expects that impacts of coal price hikes and an increase in depreciation expense will largely influence the performance. TAIHEIYO expects its income to be almost flat as shown that it projects net sales to decrease 16.7% from a year earlier to 720 billion yen and operating income to increase 0.6% from a year earlier to 64 billion yen. It expects that a decrease in income of the domestic cement business will be supported by income generated by the overseas business and cement peripheral businesses. TAIHEIYO expects its operating income to be flat; however, the rate of decline in the income is large for SOC. This is because there is a difference in the amount estimated by SOC and TAIHEIYO for domestic demand for FY2021 (SOC: 39 million tons, TAIHEIYO: 40 million tons), and also existence or non-existence of overseas businesses is seemed to have an impact.

Performance of domestic cement businesses was supported by falling coal prices to date while domestic demand was declining. However, for FY2021, the industry will face even severer situation due to coal price hikes. Although domestic demand forecast differs by company, their common view remains unchanged that they cannot expect future growth. Under such circumstances, each company pursues rationalization of and streamlining production and logistics activities. Increasing number of companies carry out the initiatives in cooperation with other companies as efforts made by individual company are limited effort. Mitsubishi Materials and Ube Industries integrated their production activities, and similar movements are also seen in the areas of production activities and logistics other than this. JCR pays attention to whether such movements in the industry will strengthen competitiveness of each company, and eventually reinforce the ability to withstand the decreasing domestic demand. JCR also views that strengthening earnings capacity of overseas cement business and businesses other than cement will be important while business performance of domestic business is sluggish.

In recent capital investment plans, measures against obsolete facilities and initiatives toward carbon-neutrality have been increasing. Aging of cement plants are notable, causing troubles in production increasingly. Along with a rise in construction costs, each company's investments to maintain/upgrade facilities are on an uptrend. On the other hand, after the government's declaration to achieve carbon neutrality by 2050, the cement industry has been accelerating their movements toward decarbonization. Hereafter, development new technologies and capital investments toward reducing CO₂ emission will be needed more than ever. In order to achieve the goals, SOC plans to invest a total of 30 billion yen between FY2020 and FY2028, and TAIHEIYO will invest a total of 100 billion yen between FY2021 and FY2030. Depending on the situation, the investment amounts may further expand. Where expenses and required funds relating to environmental issues increase more than the amount expected and a financial burden increases, it has to be needed to take into consideration of the fact in assessing the industry risk.

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(Chart 1) Earnings of Cement Business of Cement Companies (including companies engaging in other businesses) (JPY100 mn, %)

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021 Forecasts
Sumitomo Osaka Cement (5232)	Net Sales	2,118	2,204	2,249	2,205	2,170	1,619
	Operating Income	183	161	112	125	132	76
TAIHEIYO CEMENT (5233)	Net Sales	7,910	8,606	9,056	8,743	8,479	6,910
	Operating Income	604	609	616	559	574	571
MITSUBISHI MATERIALS (5711)	Net Sales	1,775	1,923	2,536	2,475	2,158	2,084
	Operating Income	209	194	197	122	66	99
Ube Industries (4208)	Net Sales	2,272	2,388	3,210	3,030	2,828	2,000
	Operating Income	162	123	144	145	147	115
Tokuyama (4043)	Net Sales	829	873	923	872	908	530
	Operating Income	75	45	32	38	45	30
TOTAL	Net Sales	14,904	15,994	17,975	17,325	16,543	13,143
	Operating Income	1,232	1,132	1,101	989	964	891
	Operating Income Margin	8.3%	7.1%	6.1%	5.7%	5.8%	6.8%
Change rate of TOTAL compared to the previous year	Net Sales	-4.2%	7.3%	12.4%	-3.6%	-4.5%	-20.6%
	Operating Income	0.5%	-8.2%	-2.7%	-10.2%	-2.6%	-7.5%

Note:

Sumitomo Osaka Cement: Cement, Mineral Resources and Cement-Related Products Businesses
Net Sales indicate sales to outside customers.

TAIHEIYO CEMENT: Cement, Mineral Resources, Environmental and Construction Materials Businesses

MITSUBISHI MATERIALS: Cement Business

There were inter-segment transfers with other segments in FY2018 and FY2020

Ube Industries: Cement & Construction Materials

Integrated "Energy & Environment" into "Cement & Construction Materials" in and after FY2018

Tokuyama: Cement

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

(Chart 2) Business Performance of Specialized Cement Companies (JPY100 mn, %)

		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021 Forecasts
Sumitomo Osaka Cement (5232)	Net Sales	2,340	2,448	2,510	2,451	2,392	1,855
	Operating Income	215	189	141	161	166	115
	Operating Income Margin	9.2	7.8	5.6	6.6	6.9	6.2
	Net Income	162	146	77	109	117	90
	Shareholders' Equity	1,942	2,024	1,922	1,967	2,037	-
	Interest-bearing Debt	642	618	611	526	514	514
	Equity Ratio	57.7	59.4	59.2	61.3	61.8	-
TAIHEIYO CEMENT (5233)	Net Sales	7,985	8,711	9,160	8,843	8,639	7,200
	Operating Income	632	651	660	610	636	640
	Operating Income Margin	7.9	7.5	7.2	6.9	7.4	8.9
	Net Income	475	385	434	391	468	400
	Shareholders' Equity	3,618	3,952	4,147	4,367	4,709	-
	Interest-bearing Debt	3,409	2,886	2,796	2,661	2,481	2,660
	Equity Ratio	35.6	38.7	40.1	42.3	45.1	-

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

<Reference>

Issuer: Sumitomo Osaka Cement Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Issuer: TAIHEIYO CEMENT CORPORATION

Long-term Issuer Rating: A Outlook: Stable



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