

ARAKAWA CHEMICAL INDUSTRIES Revises Earnings Forecasts Downward—Increasing Downward Pressure on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on downward revision of the earnings forecasts for the fiscal year ending March 2023 announced by ARAKAWA CHEMICAL INDUSTRIES, LTD. (security code: 4968).

- (1) On October 28, ARAKAWA CHEMICAL INDUSTRIES (the “Company”) revised its forecasts for the fiscal year ending March 2023, reporting net sales of 83 billion yen (previous forecast: 90 billion yen), operating loss of 1.8 billion yen (previous forecast: operating income of 1.6 billion yen), and loss attributable to owners of parent of 3.5 billion yen (previous forecast: a profit of 900 million yen). The operating loss was due to deteriorating profitability caused by historically high natural gas prices and worsened raw material conditions at the company's European base, which manufactures hydrogenated petroleum resins, and lower sales of photo-curable resins due to production adjustments in the fields related to smartphone, automobile, and display against a backdrop of semiconductor shortages and lockdowns in China. The Company plans to terminate production of hydrogenated petroleum resins in Europe in March 2023, and the net loss will expand compared to the operating loss due to the impairment losses on fixed assets associated with the termination.
- (2) As of the end of the first quarter of the fiscal year ending March 2023, the Company had equity capital of 59.3 billion yen, and the negative impact of the net loss on its financials is expected to be limited. However, its earnings environment is deteriorating, as interest-bearing debt is increasing due in part to the construction of new plant, while raw material and fuel prices are soaring and demands related to automobile, electrical, and precision equipment are weak. There is a possibility that the Company's profit level will remain low for the time being due to the increased depreciation burden from the start of operations of the new plant in Chiba Prefecture. JCR believes that downward pressure on the rating is increasing, and will reflect it in the rating after carefully examining the outlook for sales of mainstay products and the operation of the new plant, as well as efforts to improve profitability.

Takeshi Fujita, Yosuke Sato

<Reference>

Issuer: ARAKAWA CHEMICAL INDUSTRIES, LTD.

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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