

Highlights of Major Milling Companies' Financial Results for Fiscal Year Ended March 2023

The following is 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 Japan's three flour milling companies (collectively, the "Companies"): NISSHIN SEIFUN GROUP INC. ("NISSHIN SEIFUN GROUP"), NIPPON CORPORATION ("NIPPON") and Showa Sangyo Co., Ltd. ("Showa Sangyo").

1. Industry trends

The domestic sales volume of milled flour has been at around 5 million tons. Since wheat flour is the main raw material for bread and noodles, and is a daily necessity, the sales volume is stable. Most of the wheat used as a raw material dependent on import from the U.S. and Australia, is controlled by national trading. Each company purchases imported wheat from the government, and the prices are the same for companies, from major ones to small-and medium-sized ones.

Wheat international market price was historically-high in 13 U.S. dollars per bushel range in 2022 in the wake of Russia's invasion of Ukraine. The price has declined to 6 U.S. dollars per bushel range due to upper revisions made to production forecast in the major producing countries; however, it is still higher than the level before the COVID crisis. The government resale price of imported wheat increased more than 10% for two periods in a row for October 2021 and April 2022, marking the second highest price ever. Considering such circumstances, the Ministry of Agriculture, Forestry and Fisheries has extended its usual calculation period of 6 months to 1 year to level the price as an emergency measure to alleviate the impact of sudden fluctuation. Therefore, it applied the government resale price of imported wheat of April 2022 period to October 2022 period without revising the price. The government resales price of imported wheat for April 2023 period, the latest period, was 76,750 yen per ton, up 5.8% from the last period, deriving from the purchase prices of the last twelve months. In relation to this, major flour milling companies announced that they would revise the wheat flour prices for both household and commercial use from June.

2. Financial Results

The Companies increased both for net sales and operating income, based on the simple same, for FY2022 to 1,498.9 billion yen, up 16.3% on year, and 49.3 billion yen, up 6.5% on year, respectively. Each company increased sales through revising sales prices. As for profits, in the flour milling business, the Companies ensured a profit increase due mainly to solid bran prices. In the food business, all the three companies decreased profits due to the preceding cost increases such as soaring raw material prices and depreciation of the yen.

Looking at the financial indicators of the Companies at the end of FY2022, each company has different characteristics. NISSHIN SEIFUN GROUP recorded an impairment loss of 55.8 billion yen for Allied Pinnacle in Australia; however, the impact on financial structure was limited. NIPPON maintained favorable financial structure. Showa Sangyo increased interest-bearing debt due to increased working capital requirements caused by soaring grain prices. In addition to strengthening business bases, each company intends to continue to make investments in the areas with growth potentials such as overseas businesses. Having said that, given their liquidity on hand and cash flow generation capacity, the present financial indicators will unlikely deteriorate significantly.

3. Highlights for Rating

As for the earnings forecast for FY2023, both net sales and income are projected to increase as shown by a net sales of 1,567 billion yen, up 4.5% on year, and an operating income of 59 billion yen, up 19.7% on year. Although an impact of cost increase will remain, the Companies expect to increase both for sales and profits as they are working on sales price revisions. Particularly, Showa Sangyo expects a substantial increase in income as indicated by an operating profit of 7.5 billion yen, up 78.2% on year yen, factoring in an improvement in profitability of the starches and sweeteners business, which reported a loss in the previous fiscal year.

JCR believes that the actual results for FY2022 and forecast for FY2023 are not large deviated from the levels assumed in the rating review in December 2022.

Domestically, JCR is paying attention to trends in cost and progress in price revisions. Soaring grain prices and energy cost, and depreciation of the yen had influences on the performance for FY2022. JCR views that the flour milling business will still be able to maintain stable spreads by making price revisions corresponding to the government resale price of imported wheat. On the other hand, the food industry is in the situation where costs increased before the price revisions. Each company is working to revise the prices; however, frugal mindset remains persistently among consumers, and the price pass-through may not be accepted. JCR views that it is becoming important to sell products in response to consumer needs such as expansion of sales of value-added products and development of reasonably priced new products in addition to increasing prices of existing products.

Since domestic wheat flour market has been matured, it is also important to established new earnings foundations including domestic food and overseas businesses. As shown by the overseas sales ratio of 32% for FY2022 and others, NISSHIN SEIFUN GROUP is leading ahead of peers in terms of overseas expansion. Its U.S. business attained a record-high income for FY2022 as the market has been kept growing. On the other hand, it recorded an impairment loss for Australian business, due to the poor performance. Since NISSHIN SEIFUN GROUP intends to increase new production lines in the U.S. and make progress in price revisions and improve productivity in the Australian business, JCR will pay attention to the progress of these initiatives and degree of their profit contribution. NIPPON operates businesses mainly in the U.S. and ASEAN. It plans to expand its sales bases and areas in the U.S. It also plans to commence operation of a manufacturing plant in Indonesia in 2023. In 2020, Showa Sangyo made a tender offer to acquire shares of Boso Oil & Fat Co., Ltd., a rice oil company, and also purchased shares of San-ei Sucochemical Co., Ltd. JCR will pay attention whether it can improve earnings capacity over the medium term through demonstrating synergy effects with existing businesses into the future as well.

Hajime Inoue, Mariko Miura

(Chart 1) Consolidated Financial Results of Three Major Milling Companies

(Unit: JPY 100 mn, %)

		FY2020 (Actual)	FY2021 (Actual)	FY2022 (Actual)	FY2023 (Forecast)				
		FY2020 (Actual)	FY2021 (Actual)	FY2022 (Actual)	FY2023 (Forecast)	FY2020 (Actual)	FY2021 (Actual)	FY2022 (Actual)	
NISSHIN SEIFUN GROUP (2002)	Net Sales	6,794	6,797	7,986	8,200	Equity Capital	4,330	4,492	4,238
	Operating Income	271	294	328	390	Interest-bearing Debt	769	406	850
	Operating Margin	4.0	4.3	4.1	4.8	Equity Ratio	63.0	62.1	59.4
NIPPON (2001)	Net Sales	3,295	3,213	3,652	3,870	Equity Capital	1,642	1,741	1,886
	Operating Income	103	113	122	125	Interest-bearing Debt	701	687	641
	Operating Margin	3.1	3.5	3.4	3.2	Equity Ratio	53.3	53.4	54.8
Showa Sangyo (2004)	Net Sales	2,559	2,876	3,350	3,600	Equity Capital	996	1,057	1,129
	Operating Income	75	56	41	75	Interest-bearing Debt	454	518	603
	Operating Margin	3.0	1.9	1.2	2.1	Equity Ratio	46.7	45.7	45.6
Total	Net Sales	12,650	12,887	14,989	15,670				
	Operating Income	451	463	493	590				
	Operating Margin	3.6	3.6	3.3	3.8				

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

(Chart 2) Operating Income of Flour Milling Segment

(Unit: JPY 100 mn)

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
NISSHIN SEIFUN GROUP	100	92	93	63	85	176
NIPPN	52	55	57	51	62	75
Showa Sangyo	24	30	29	17	35	38

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

(Chart 3) Operating Income of Foods Segment

(Unit: JPY 100 mn)

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
NISSHIN SEIFUN GROUP	135	134	146	166	155	93
NIPPN	44	52	49	42	40	34
Showa Sangyo	32	45	48	47	15	4

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

Note: Above figures are the simple sum of the figures for the Processed Food and Prepared Dishes & Other Prepared Foods businesses for NISSHIN SEIFUN GROUP, and those for the Vegetable Oils and Starches & Sweeteners businesses for Showa Sangyo.

<Reference>

Issuer: NISSHIN SEIFUN GROUP INC.

Long-term Issuer Rating: AA Outlook: Stable

Issuer: NIPPN CORPORATION

Long-term Issuer Rating: A Outlook: Stable

Issuer: Showa Sangyo Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

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