

Showa Denko Announces Business Forecasts for FY2020— Downward Pressure on Rating Increases

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on business forecasts of Showa Denko K.K. (security code: 4004) for the fiscal year ending December 2020 (FY2020).

- (1) Showa Denko K.K. (the "Company") released on August 12 its full-year forecasts for FY2020, which previously were left "undecided." According to this, net sales are expected to grow 5.9% over the year to 960.0 billion yen, whereas the previous year's operating income of 120.8 billion yen and net income of 73.1 billion yen are projected to turn into a loss of 30.0 billion yen and 90.0 billion yen, respectively. As the expected performance of Hitachi Chemical Company, Ltd. ("Hitachi Chemical") for the July–December period following the consolidation of Hitachi Chemical is also taken into consideration, while net sales will improve, though marginally, operating loss and ordinary loss will be reported, resulting in the largest-ever net loss for the Company. Major factors behind the deterioration of profitability include: expenses related to the acquisition of Hitachi Chemical's shares; devaluation of inventory due to lower demand and market downturn for graphite electrodes; and negative influence of the difference between the receipts and disbursements of raw materials, reflecting the fall in naphtha prices in the Petrochemicals segment. Moreover, the huge net loss will have considerable adverse impact on equity capital.
- (2) JCR announced in April 2020 the affirmation of the A long-term issuer rating on the Company with Negative outlook when removing the rating from Credit Monitor in consideration of the Hitachi Chemical acquisition. Although this incorporated business declines due to the COVID-19 pandemic, etc., the new forecasts are worse than JCR's previous assumptions. Given that much of share acquisition-related expenses, inventory devaluation, etc. are one-off factors, the Company's performance will probably recover going forward partly through the elimination of these factors. That said, prospects for the future business environment is highly uncertain, and, depending on the Company's future performance, improvement of the financial structure, which weakened with the Hitachi Chemical acquisition, may be delayed. Under the current circumstances, JCR views that downward pressure on the rating is increasing.

Mikiya Kubota, Takeshi Fujita

<Reference>

Issuer: Showa Denko K.K.

Long-term Issuer Rating: A Outlook: Negative

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