

## Highlights of Special Steel Manufacturers' Financial Results for Fiscal Year Ended March 2021

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 2021 (FY2020) and earnings forecasts for FY2021 of the following four special steel manufacturers (the "Companies"): Daido Steel Co., Ltd. ("Daido Steel"), Sanyo Special Steel Co., Ltd. ("Sanyo Special Steel"), AICHI STEEL CORPORATION ("AICHI STEEL") and Mitsubishi Steel Mfg. Co., Ltd. ("Mitsubishi Steel Mfg.").

### 1. Industry Trend

Domestic special steel production (based on hot-rolled steel) in FY2020 was 14.81 million tons, a significant decrease from 18.46 million tons in FY2019 (Chart 1). In the first half of the fiscal year, there was a movement to shut down plants at automobile manufacturers and other companies due to the impact of the COVID-19 pandemic, and the demand for special steel fell. In the second half, however, the demand for special steels recovered as users' production activities intensified, mainly for the auto-related industry. After December 2020, the COVID-19 pandemic was re-expanded, but there was no major change in the production trend of users, and the impact on the special steel demand was limited. Demand continues to recover at present, and domestic special steel production in FY2021 is expected to exceed FY2020.

Since the end of FY2020, the price of iron scraps, the main raw material, has surged, and it has become the factor of cost increase for specialized steel companies. The background was the tighter supply-demand balance stemming from the mitigation of import regulations for steel scrap in China and a decrease in generation of iron scrap worldwide caused by the pandemic. However, because dedicated special steel companies have introduced iron scrap and a surcharge system with many of their customers, the raised costs would be incorporated in sales prices over the medium term.

### 2. Financial Results

In FY2020, both sales and income fell sharply, with a total sales of the Companies of 926.1 billion yen, down 16.7% year on year and an ordinary income of 6.6 billion yen, down 81.8% year on year. (Chart 2). The factor behind this was a decline in sales volume with a fall in demand from the auto-related industry and others. Looking at each of the Companies, while Daido Steel and Aichi Steel recorded profits despite declines, Sanyo Special Steel and Mitsubishi Steel Mfg. recorded losses for the second consecutive fiscal year. Sanyo Special Steel's performance was depressed by a decline in domestic demand and a struggle in the overseas business. Mitsubishi Steel Mfg. experienced a temporary cost increase associated with the renovation of the blast furnace at HOKKAI IRON & COKE CORPORATION, which was also a factor of deterioration in its performance. Net loss attributable to owners of the parent of the Companies totaled 4.8 billion yen (compared with a profit of 1.7 billion yen in the previous fiscal year), affected by impairment losses recorded in Daido Steel and Sanyo Steel in addition to a decrease in ordinary income.

In FY2020, the total non-consolidated steel sales volume of the three Companies, excluding Mitsubishi Steel Mfg., which did not disclose the volume, was 2.62 million tons, a 15.6% fall from 3.11 million tons in FY2019. In particular, in the first half of FY2020, when the production activity of users stagnated with the pandemic, the decline was large, down 38.2% year on year. Conversely, in the second half, following the progress made in the recovery of production by users, the sales volume turned to an increase of 9.8% year on year.

As of the end of FY2020, the total equity ratio of the Companies was 48.0% and the D/E ratio was 0.6x, which were generally at the same level as the previous year (Chart 3). The increase in interest-bearing debt was limited as a result of the fact that firms restrained capital investments to a level equivalent to depreciation expenses in order to respond to the decline in their cash flow generation capacity (Chart 4). In addition, the equity capital of Daido Steel and Aichi Steel increased, mainly thanks to improvement in other comprehensive income following a rise in stock prices.

### 3. Highlights for Rating

For FY2021, the total operating income of the Companies is forecast to increase significantly to 54.3 billion yen, 8.2 times the previous fiscal year. Despite the impact of delays in reflecting a rise in prices of ferrous scrap and ferroalloys on sales prices, the impact of the increase in sales volume is expected to greatly exceed the impact. In the overseas business also, sales would expand on the back of a recovery in demand, and results would improve due to factors such as cost reductions and improved productivity, thereby pushing up profit levels.

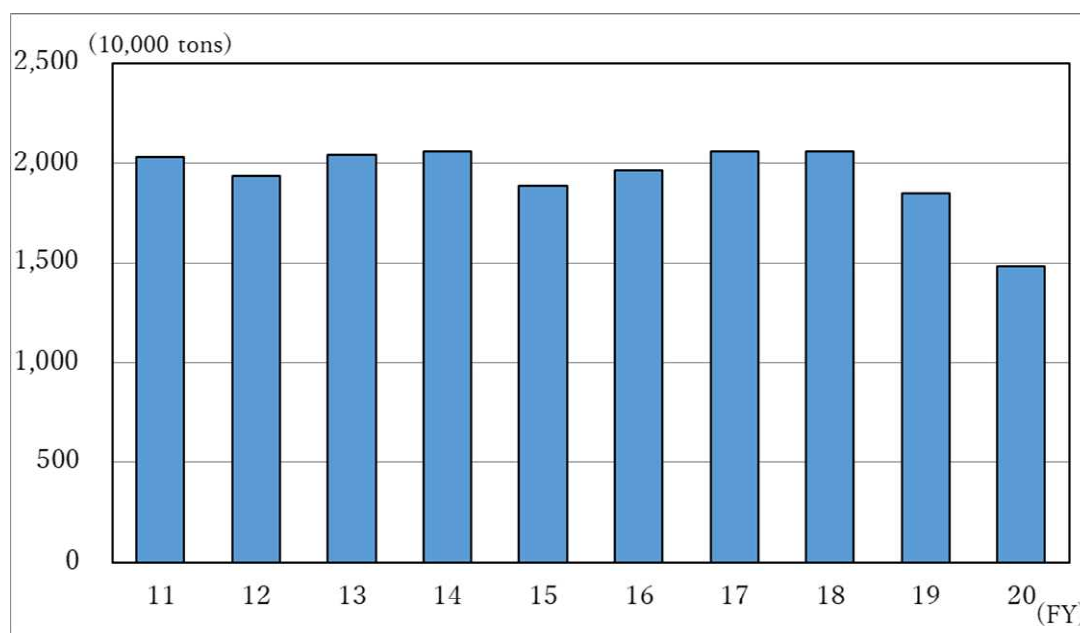
For FY2021, the total non-consolidated steel sales volume of the three Companies, excluding Mitsubishi Steel Mfg. is projected to be 3.35 million tons, up 27.8% year on year, exceeding 3.11 million tons in FY2018 before COVID-19 pandemic. This is because of strong production by Japanese automakers, the main customers. On the other hand, in autumn 2020 and later, some customers including overseas automakers began to constrain their production volume due to a shortage of automotive semiconductors. If the supply-demand balance of semiconductor became tighter, Japanese manufacturers may adjust production in full swing, which can push down demand for special steel. There is also a risk that the recovery in demand from manufacturers will be slowed by intensified trade friction between the U.S. and China. The user's production trend and the continuity of the recovery in demand for special steels will be the focus of attention.

Sanyo Special Steel and Mitsubishi Steel Mfg. continued to be in the red in the overseas business in the background of the decline of the demand, etc., which became a worsening factor of the business. However, in addition to cost reductions and productivity improvement, oversea demand is expected to recover, and in FY2021, Sanyo Special Steel's overseas business and Mitsubishi Steel Mfg.'s Indonesian business are assumed to become profitable. Although Mitsubishi Steel Mfg.'s North American spring business would remain in the red in FY2021, it is expected to move into the black in FY2022 due to the absence of a one-time cost increase factor and the effects of the consolidation of business bases. JCR will watch whether profitability can continue to be raised through ongoing enhancement of cost competitiveness, etc.

In FY2021, the total capital investment of the Companies is projected to be 54.4 billion yen, which remains below the level of depreciation. While the amount of capital investment is at a low level, as each company is expected to recover its results, it is highly likely that its financial structure will move toward improvement.

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(Chart 1) Domestic Hot-Rolled Special Steel Production Volume



Source: Prepared by JCR based on data of The Japan Iron and Steel Federation, and The Ministry of Economy, Trade and Industry

(Chart 2) Consolidated Financial Performance of Four Special Steel Manufacturers

(JPY 100 mn, %)

		Net Sales		Ordinary Income		Ordinary Income/Net Sales Ratio	Net Income*	
			YOY		YOY			YOY
Daido Steel (5471)	FY2019	4,904	- 9.7	242	- 29.2	5.0	109	- 48.1
	FY2020	4,127	- 15.8	126	- 48.0	3.1	45	- 58.9
	FY2021 Forecasts	5,000	21.1	360	184.8	7.2	235	420.3
Sanyo Special Steel (5481)	FY2019	2,624	41.2	- 15	-	-	- 37	-
	FY2020	2,107	- 19.7	- 47	-	-	- 68	-
	FY2021 Forecasts	3,150	49.5	70	-	2.2	35	-
AICHI STEEL (5482)	FY2019	2,422	- 5.9	137	21.7	5.7	85	31.4
	FY2020	2,049	- 15.4	42	- 69.2	2.1	30	- 64.3
	FY2021 Forecasts	2,450	19.6	95	123.6	3.9	57	86.9
Mitsubishi Steel Mfg. (5632)	FY2019	1,171	- 9.5	- 2	-	-	- 140	-
	FY2020	978	- 16.5	- 55	-	-	- 55	-
	FY2021 Forecasts	1,370	40.1	18	-	1.3	30	-
Total	FY2019	11,122	- 0.3	362	- 34.3	3.3	17	- 95.1
	FY2020	9,261	- 16.7	66	- 81.8	0.7	- 48	-
	FY2021 Forecasts	11,970	29.2	543	720.4	4.5	357	-

\*Net Income Attributable to Owners of Parent

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

(Chart 3) Financial Structure of Four Special Steel Manufacturers

(JPY 100 mn, times, %)

	End of	Interest-bearing Debt	Equity Capital	D/E Ratio	Equity Ratio
Daido Steel (5471)	FY2018	1,742	2,855	0.6	43.9
	FY2019	1,924	2,735	0.7	43.7
	FY2020	1,973	3,031	0.7	45.6
Sanyo Special Steel (5481)	FY2018	913	1,956	0.5	52.3
	FY2019	742	1,783	0.4	54.4
	FY2020	703	1,783	0.4	55.9
AICHI STEEL (5482)	FY2018	596	1,526	0.4	52.6
	FY2019	594	1,546	0.4	55.2
	FY2020	758	1,627	0.5	53.3
Mitsubishi Steel Mfg. (5632)	FY2018	422	590	0.7	38.5
	FY2019	551	426	1.3	30.1
	FY2020	485	388	1.2	29.4
Total	FY2018	3,674	6,928	0.5	47.2
	FY2019	3,812	6,491	0.6	47.2
	FY2020	3,921	6,831	0.6	48.0

Note: interest-bearing debt covers corporate bonds, CP and borrowings  
Source: Prepared by JCR based on financial materials of above companies

(Chart 4) Capital Expenditures of Four Special Steel Manufacturers

(JPY 100 mn)

		Capital Expenditures	Depreciation Expense
Daido Steel (5471)	FY2019	375	246
	FY2020	244	259
	FY2021 Forecasts	200	267
Sanyo Special Steel (5481)	FY2019	275	150
	FY2020	144	141
	FY2021 Forecasts	110	150
AICHI STEEL (5482)	FY2019	200	158
	FY2020	141	169
	FY2021 Forecasts	190	175
Mitsubishi Steel Mfg. (5632)	FY2019	76	35
	FY2020	30	33
	FY2021 Forecasts	44	38
Total	FY2019	928	591
	FY2020	560	603
	FY2021 Forecasts	544	630

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

## &lt;Reference&gt;

Issuer: Sanyo Special Steel Co., Ltd.

Long-term Issuer Rating: A Outlook: Negative

Issuer: AICHI STEEL CORPORATION

Long-term Issuer Rating: A Outlook: Stable

Issuer: Mitsubishi Steel Mfg. Co., Ltd.

Long-term Issuer Rating: BBB Outlook: Stable



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