

## Highlights of General Trading Companies' Financial Results for Fiscal Year Ended March 2024

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 2024 (FY2023) and earnings forecasts for FY2024 of Japan's six general trading companies (collectively, the "Companies"): Mitsubishi Corporation, SUMITOMO CORPORATION, MITSUI & CO., LTD., Marubeni Corporation, ITOCHU Corporation and Sojitz Corporation.

### 1. Industry Trend

In the resource sector, prices fell for a number of commodities. For instance, the price fell from roughly USD 330 per ton in FY2022 to around USD 290 in FY2023 for coking coal, from a bit below USD 360 to around USD 140 for thermal coal and over USD 90 to around USD 80 for crude oil. These changes had varying impact on the Companies in monetary terms; net income attributable to owners of the parent (net income) in FY2023 appear to have been affected negatively by the thermal coal price in the amount of around 58 billion yen for SUMITOMO and by the crude oil price in the amount of around 23 billion yen for Mitsubishi. Yet, prices remain high for many commodities compared to pre-FY2020 levels, and the Companies all secure a certain level of profits in the resource sector. That said, resource prices are susceptible to global political and economic changes, and it is difficult to make highly accurate estimates. Therefore, market trends need to be closely monitored going forward, too.

The Companies keep making new investments and are also developing new earnings sources. New investments of the Companies combined, which were hovering in the 2 trillion yen range in recent years, increased to around 3.5 trillion yen in FY2023. The high level of profits has created financial leeway for the Companies, which is encouraging them to accelerate investments. Some are large-scale projects, including the investment of approximately 380.0 billion yen by ITOCHU to make its subsidiary ITOCHU Techno-Solutions Corporation wholly owned. In parallel with new investments, the Companies are also working on investment recovery. As such, constant asset replacement is probably a major characteristic of general trading companies. Recovery projects include not only those aimed at withdrawing from inefficient investments but also those aimed at divesting businesses, which are beginning to turn downward from their peak, on more favorable conditions from the viewpoint of business life cycle. Marubeni in FY2023 made new investments of 290.0 billion yen while recovering investments of 107.2 billion yen to cover part of such expenditures.

### 2. Financial Results

Net income of the Companies combined for FY2023 came to 3,788.0 billion yen, down 12.5% from the previous year. All of the Companies but ITOCHU saw a drop in the income due to a market downturn in the resource sector and a backlash in the non-resource sector, which was strong in the previous year. ITOCHU attained the same level of income as the previous year as the non-resource sector generated solid profits. Mitsubishi and MITSUI, which are particularly strong in the resource sector, were adversely affected by the market downturn, resulting in a decrease in profits of around 100 billion yen in that sector. SUMITOMO also recorded a one-time loss of approximately 150 billion yen, mainly in the resource sector, suffering a sharp decline in net income.

As regards the financial figures of the Companies combined as of March 31, 2024, despite an increase in net interest-bearing debt by 1,606.6 billion yen, net D/E ratio improved 0.01 points from a year before to 0.49x as equity capital (total equity minus non-controlling interests) grew by approximately 4,091.1 billion yen.

Net interest-bearing debt grew for all of the Companies partly due to accelerated new investments. Equity capital improved for the Companies alike thanks largely to profit accumulation and the positive impact of foreign exchange fluctuations. Looking at Marubeni for instance, equity capital increased by 581.9 billion yen, 376.9 billion yen of which is attributable to foreign exchange fluctuations. General trading companies have a large amount of foreign currency-denominated assets associated with overseas investments and so forth, and it must be noted that there are many cases where equity capital is affected by the valuation of such assets.

### 3. Highlights for Rating

For FY2024, while prices are projected to decline for coking coal, etc. in the resource sector, they are expected to remain fairly steady for many businesses in the non-resource sector. Consequently, net income of the Companies combined is projected to improve 1.6% over the year to 3,850 billion yen. Individually, the income will likely decline for Mitsubishi and MITSUI, which are heavily affected by the resource sector, while it is expected to improve for SUMITOMO with the elimination the previous year's one-off losses and for Marubeni, ITOCHU and Sojitz, driven by the non-resource sector.

On a separate note, the percentages of the resource and non-resource sectors in net income vary among the Companies. On the premise of current resource prices, majority of net income is accounted for by the resource sector for Mitsubishi and MITSUI. This sector is susceptible to price fluctuations, and its profits are volatile. The non-resource sector on the other hand generates profits more steadily than the resource sector, although some businesses are affected by price fluctuations. Many of the Companies are thus aiming to enhance earnings in the non-resource sector, and JCR is keeping an eye on progress in the efforts to that end.

On the financial front, many of the Companies keep net D/E ratio below 1x. The Companies maintain their stance to place emphasis on the financial position, and JCR predicts that they will keep the ratio at around the current level by securing positive free cash flow.

Operating in wide-ranging business domains as general trading companies, the Companies inevitably incur a certain amount of losses every fiscal year. In particular, new investments are more prone to losses than existing businesses due to changes in the external environment. Recent examples of large losses reported were those by Marubeni in FY2019 and SUMITOMO in FY2020, both of which fell into net loss. SUMITOMO reported approximately 150 billion yen in loss for FY2023, too. The Companies constantly review assets and probably have enough financial strength to absorb losses, but in any case risk management remains an important management issue.

Risk management against unexpected losses is also vital for general trading companies, which operates a wide range of businesses. Many of the Companies calculate risk assets (maximum amount of losses expected under certain conditions) and manage them by balancing that amount with equity capital, etc. as a risk buffer (risk assets divided by risk buffers). As of March 31, 2024, the ratio was below 1x for three companies that disclose risk assets, namely SUMITOMO, ITOCHU and Sojitz.

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(Chart 1) Consolidated Business Performance

(JPY 100 mn)

	Mitsubishi (8058)			SUMITOMO (8053)			MITSUI (8031)		
	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F
Revenues	215,720	195,676	-	68,179	69,103	-	143,064	133,249	-
Operating Income	9,524	6,674	-	4,230	4,149	-	6,934	5,254	-
Net Income	11,807	9,640	9,500	5,652	3,864	5,300	11,306	10,637	9,000

	Marubeni (8002)			ITOCHU (8001)			Sojitz (2768)		
	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F
Revenues	91,905	72,505	-	139,456	140,299	-	24,798	24,146	-
Operating Income	3,408	2,763	-	7,019	7,029	-	1,148	845	-
Net Income	5,430	4,714	4,800	8,005	8,018	8,800	1,112	1,008	1,100

	Total		
	FY2022	FY2023	FY2024F
Revenues	683,122	634,979	-
Operating Income	32,264	26,715	-
Net Income	43,313	37,880	38,500

Notes:

1. Operating income = Gross profit - SG&A expenses
  2. FY2024 forecasts are as announced by each of the Companies.
- Source: Prepared by JCR based on financial materials of the Companies

(Chart 2) Consolidated Financial Structure

(JPY 100 mn, times)

	Mitsubishi			SUMITOMO			MITSUI		
	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F
Net Interest-bearing Debt	32,376	37,823	-	24,844	25,234	-	32,128	33,981	-
Equity Capital	80,656	90,439	-	37,787	44,455	-	63,678	75,418	-
Net D/E Ratio	0.40	0.42	-	0.66	0.57	-	0.50	0.45	-

	Marubeni			ITOCHU			Sojitz		
	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F	FY2022	FY2023	FY2024F
Net Interest-bearing Debt	14,831	19,024	22,000	23,912	27,416	-	6,294	6,973	8,500
Equity Capital	28,777	34,597	33,000	48,233	54,270	-	8,377	9,241	9,600
Net D/E Ratio	0.52	0.55	0.67	0.50	0.51	-	0.75	0.75	0.89

	Total		
	FY2022	FY2023	FY2024F
Net Interest-bearing Debt	134,385	150,451	-
Equity Capital	267,508	308,419	-
Net D/E Ratio	0.50	0.49	-

Notes:

1. Equity capital = Total equity - Non-controlling interests
  2. Net D/E ratio = Net interest-bearing debt / Equity capital
  3. FY2024 forecasts are as announced by each of the Companies.
- Source: Prepared by JCR based on financial materials of the Companies

<Reference>

Issuer: ITOCHU Corporation

Long-term Issuer Rating: AA+      Outlook: Stable

Issuer: Marubeni Corporation

Long-term Issuer Rating: AA      Outlook: Stable

Issuer: Sojitz Corporation

Long-term Issuer Rating: A      Outlook: Stable

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