

SUMITOMO CHEMICAL Announces Sale of a Portion of Shares in Petro Rabigh, Etc.—Positive Factor for the Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by SUMITOMO CHEMICAL COMPANY, LIMITED (security code: 4005) on the sale of a portion of the shares held in Rabigh Refining and Petrochemical Company.

- (1) SUMITOMO CHEMICAL COMPANY, LIMITED (the "Company") announced on August 7 that it has agreed with its joint venture partner Saudi Arabian Oil Company ("Saudi Aramco") on the turnaround strategy that centers on capital structural reform and debt reduction measures for Rabigh Refining and Petrochemical Company ("Petro Rabigh"). As a result of the sale of a portion of Petro Rabigh shares to Saudi Aramco, the percentage of the Company's ownership interest in Petro Rabigh will shrink from 37.5% to 15% from the fiscal year ending March 2026 (FY2025) while Petro Rabigh will remain to be an equity-method affiliate of the Company. Meanwhile, as the Company and Saudi Aramco will waive loans to Petro Rabigh, the Company is expected to record approximately 27.0 billion yen in loss before tax (non-recurring factor) in the second quarter of FY2024. A series of financial improvement plans will help significantly reduce Petro Rabigh's accumulated losses and debt, and, with a new capital structure, Petro Rabigh will work on profitability enhancement under the leadership of Saudi Aramco going forward.
- (2) Petro Rabigh was launched as a project from which huge profit contribution could be expected with the use of inexpensive raw materials from Saudi Arabia, and the ethane cracker began operating in April 2009. However, Petro Rabigh's performance has been unstable due to fluctuations in the market for petroleum and petrochemical products, and large net loss has been posted in recent years, owing to the worsening business environment as well, thus adversely affecting the Company's performance. Moreover, due in part to differences in strategic direction with Saudi Aramco, it has been an urgent issue for the Company to restructure and review the positioning of Petro Rabigh in implementing the business plan.
- (3) The Company's performance will be negatively affected by debt waiver included in the turnaround strategy to a certain extent, but its volatility will probably be somewhat reduced from FY2025 on with the decline in ownership interest. For this reason, JCR has concluded that the turnaround strategy will mitigate downward pressure on the Company's rating. JCR has also confirmed that the recently announced first-quarter results for FY2024 indicate that the Company's performance is recovering in line with the forecasts made at the beginning of the year. Even though the above factors do not cause the rating outlook to be changed at this stage, the situation is improving thanks in part to the short-term intensive performance improvement measures and drastic structural reforms. JCR will keep monitoring the pace of business recovery, the status of financial structure improvement, progress in the restructuring of the Essential Chemicals & Plastics and Pharmaceuticals sectors, etc. to be reflected in the rating.

Shigenobu Tonomura, Takeshi Fujita

<Reference>

Issuer: SUMITOMO CHEMICAL COMPANY, LIMITED

Long-term Issuer Rating: A+ Outlook: Negative

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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