June 10, 2024

Highlights of Major General Chemical Manufacturers' 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 chemical manufacturers: ASAHI KASEI CORPORATION ("ASAHI KASEI"), Resonac Holdings Corporation (Resonac HD; with a January-December accounting period), SUMITOMO CHEMICAL COMPANY, LIMITED ("SUMITOMO CHEMICAL"), TOSOH CORPORATION ("TOSOH"), Mitsui Chemicals, Inc. ("Mitsui Chemicals"), and Mitsubishi Chemical Group Corporation ("Mitsubishi Chemical Group").

1. Industry Trend

Regarding basic materials, the average utilization rate of domestic ethylene centers in FY2023 was 80.7% (average monthly utilization rate from April 2023 to March 2024, 84.7% in FY2022). Since April 2023, the monthly utilization rate has remained below 90%, which is considered the break-even point, and has been below 80% for several months, remaining at a lower level than the previous year. This was against the backdrop of a sluggish Chinese economy and weak consumer spending in Japan and overseas due to inflationary pressures. Under these circumstances, new ethylene facilities in China, which had been planned for some time, began operations one after another. The global supply-demand balance for petrochemical products worsened as the supply increased. The same was true for basic chemicals and raw materials for synthetic fibers, and overall demand for basic materials declined and margins slumped, resulting in a major negative impact on business performance. With plans for new ethylene capacity expansion in China expected to continue into the latter half of the '20s, and new investments underway in South Korea and Southeast Asia, there are growing concerns that Asian petrochemicals will face a significant supply glut in the future.

Regarding businesses and products in specialty areas, the situation in FY2023 was different for each individual field and company. With regard to major sectors, the shortage of semiconductors in the automotive industry has finally been resolved, and production of finished vehicles has recovered. In response, demand for high-performance materials for automotive interiors and exteriors also began to recover. However, the recovery in performance varied among individual companies due to differences in the competitiveness of the products they handle. In electronics-related products, demands for related high-purity chemicals, manufacturing process-related products, and functional films continued to be soft due to adjustments in the semiconductor and display markets. In healthcare, both pharmaceuticals and medical peripherals secured solid profits in cases where they have leading products. However, SUMITOMO CHEMICAL posted a large divisional loss due to the end of its exclusive sales period for Latuda (atypical antipsychotic treatment) in North America (February 2023) and delays in expanding sales of post-Latuda products. In addition, inventory adjustments in the South American market were a negative factor for agrochemicals.

2. Financial Results

EBITDA* for the six companies for FY2023 (ended December 2023 for Resonac HD) totaled approximately 1 trillion yen, down more than 30% from FY2022 and the lowest level since the early '10s. Although the weak yen, recovery in automotive-related materials, and solid performance in businesses and products in which each company has strengths were positive factors, deteriorating profit of basic materials and slow recovery in electronics-related businesses put downward pressure on performance. In particular for basic materials, four of the five companies whose individual profit for this business can be verified posted operating losses. In addition, SUMITOMO CHEMICAL was forced to post a large loss due to the deteriorating profit of its joint venture in Saudi Arabia. Overall, the six companies' performance was difficult, including quarterly downward revisions made to its initial forecasts.

In terms of operating income by company (core operating income under IFRS), two companies, ASAHI KASEI and TOSOH reported higher incomes, while the remaining four companies reported lower incomes. Of the two companies that posted higher operating income, ASAHI KASEI posted an operating loss in basic materials, but this was offset by strong performance in homes and health care. TOSOH has demonstrated structural stability in petrochemicals, and its performance was supported by the strong performance of its subsidiary's engineering business, with the water treatment business as the core. For the four companies with lower incomes, the slump in basic materials was a common negative factor, but Mitsui Chemicals secured an increase in income in the three growth segments combined. Mitsubishi Chemical Group reported a sharp decline in income in reaction to the one-time factor of the previous year, but secured solid income thanks to the contribution of industrial gases and other factors. On the other hand, Resonac HD and SUMITOMO CHEMICAL plunged into operating losses. Resonac HD was hit by an operating loss in its core semiconductor and electronic materials business. SUMITOMO CHEMICAL posted a large core operating loss due to deteriorating performance in essential chemicals & plastics and pharmaceuticals, and also posted an impairment losses related to these two businesses, resulting in a net loss of 311.8 billion yen, the largest loss in its history.

The total equity capital level of the six companies at the end of FY2023 was approximately 7 trillion yen. Although simple comparisons are not possible due to changes in accounting standards and an increase in foreign currency translation adjustments resulting from the yen's depreciation, the level has more than doubled during the 10 fiscal years since it reached the 3 trillion yen level at the end of FY2013. On the other hand, the total net interest-bearing debt of the six companies at the end of FY2023 was approximately 5 trillion yen, a record high following the end of the previous year, due to aggressive growth investments by each company in recent years and increased demand for working capital. Looking at the industry as a whole, however, the current financial structure is at a relatively sound level. While the scale and progress of M&As and other factors have led to differences in the financial conditions of individual companies, each company is strongly committed to financial discipline, and the balance between investment for growth and financial soundness is generally well controlled. SUMITOMO CHEMICAL suffered a significant loss of equity capital in FY2023, but maintained a certain level of financial soundness at the end of the same period.

*Gross Profit - SG&A Expenses + Depreciation and Amortization under IFRS

3. Highlights for Rating

All six companies forecast an increase and return to profitability in operating income (core operating income in case of IFRS) in their initial forecasts for FY2024. Overall, results for the first half of FY2024 remain challenging, but they expect a recovery in the second half. SUMITOMO CHEMICAL also forecasts a V-shaped recovery. Its essential chemicals & plastics remains unprofitable, but the loss has been reduced. SUMITOMO CHEMICAL expects return to profitability for the pharmaceuticals, mainly due to the effects of structural reforms. In addition, the health & crop sciences business is expected to return to cruising speed, which will boost performance.

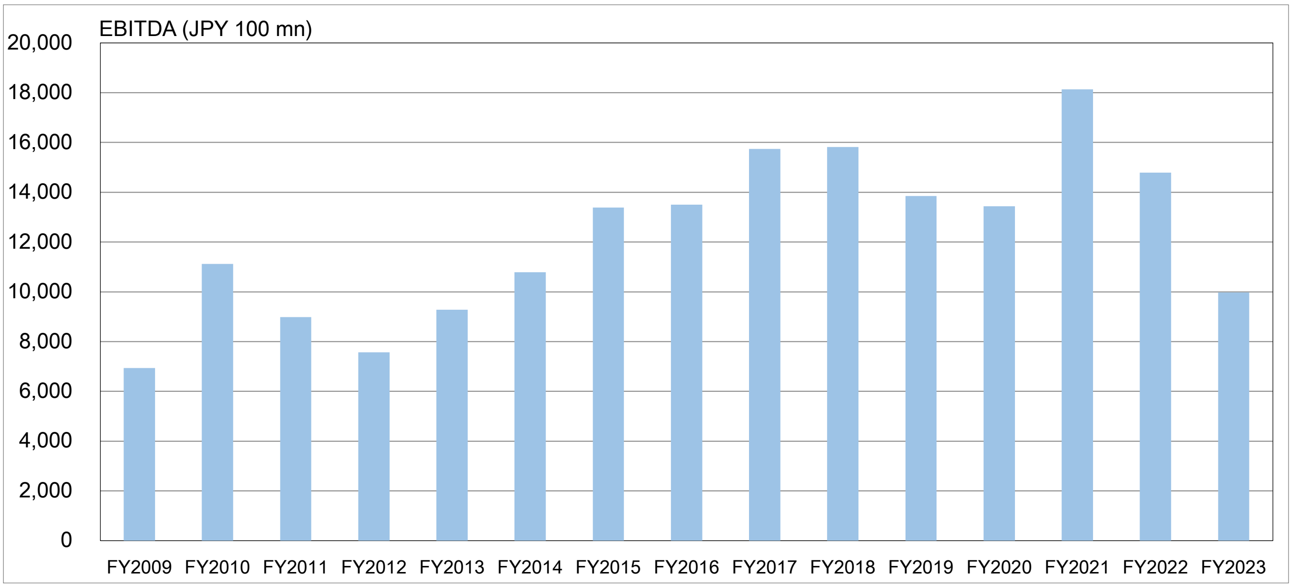
In terms of performance for FY2024, the key focus will be on the improvement of profitability of basic materials and whether the performance of electronics-related businesses such as those for semiconductors can pick up. Regarding the basic materials, the business environment itself is unlikely to see a major turnaround, as it is expected to continue to be affected by overproduction in China and inflation in Japan and overseas. The utilization rate of ethylene centers is also expected to remain at a low level. While downward pressure on performance is expected to continue, the companies will seek to improve profitability mainly through self-help efforts, such as price hikes and fixed cost reductions. On the other hand, in the semiconductor-related, generative AI has become a driving force, and mainly the back-end semiconductor materials are on the recovery trend. On the business performance, Resonac HD has revised its performance prospects for the first half of FY2024 upward in response to the recovery in the semiconductor market. Although the smartphone and PC markets remain sluggish, if replacement demand increases in the future, it will be a positive factor for semiconductor and display-related materials.

Outside the performance, JCR is focusing on two major points. The first point is to maintain financial soundness. In recent years, there has been an increasing trend toward greater shareholder returns, partly in response to demands from the stock market. On the other hand, the companies are also aggressively investing for medium- and long-term growth, which puts a strain on their finances. They are required to achieve appropriate cash allocation through an expansion in cash inflow by selling businesses and assets and improving working capital efficiency in addition to recovering business performance.

The second point is business structural reforms. In recent years, the companies have been increasingly reorganizing their business structures in order to promote growth strategies and decarbonization. Specifically, they have designated electronics, mobility, healthcare, and environment as growth areas and are accelerating growth by allocating management resources intensively to these areas, while at the same time optimizing the capacity of petrochemicals and other basic materials and promoting green chemicals. In particular, the restructuring of basic materials is an urgent issue for the industry as a whole, as the severe business environment is expected to continue for the time being. JCR will focus on whether they can reduce performance volatility and return to a growth trajectory early through these measures.

Shigenobu Tonomura, Takeshi Fujita

(Chart 1) Total EBITDA of Six General Chemical Manufacturers



*EBITDA = Operating Income + Depreciation + Amortization of Goodwill (Gross Profit - SG&A Expenses + Depreciation and Amortization under IFRS)

(Chart 2) Consolidated Business/Financial Performance of Six General Chemical Manufacturers

(JPY 100 mn, times)

		Net Sales	Operating Income	Ordinary Income	Net Income	Interest-bearing Debt	Equity Capital	Total Assets	Net D/E Ratio	Equity Ratio
ASAHI KASEI (3407)	FY2022	27,264	1,283	1,215	▲914	9,394	16,609	34,545	0.41	48.1%
	FY2023	27,848	1,407	901	438	9,170	18,133	36,627	0.32	49.5%
	FY2024F	29,120	1,800	1,810	1,000	—	—	—	—	—
Resonac HD (4004)	FY2022	13,926	593	593	307	9,099	6,877	21,004	1.05	32.7%
	FY2023	12,888	▲38	▲148	▲190	8,643	6,903	20,319	0.98	34.0%
	FY2024F	13,600	470	320	250	—	—	—	—	—
TOSOH (4042)	FY2022	10,643	746	899	503	1,767	7,388	11,942	0.08	61.9%
	FY2023	10,056	798	959	573	1,763	7,945	12,899	0.03	61.6%
	FY2024F	10,900	1,000	980	590	—	—	—	—	—

		Sales Revenue	Core Operating Income	Operating Income	Net Income	Interest-bearing Debt	Equity Attrib. to Owners of the Parent	Total Assets	Net D/E Ratio	Ratio of Equity Attrib. to Owners of the Parent
SUMITOMO CHEMICAL (4005)	FY2022	28,952	927	▲310	69	13,363	12,961	41,655	0.80	31.1%
	FY2023	24,468	▲1,490	▲4,889	▲3,118	14,384	10,907	39,348	1.12	27.7%
	FY2024F	26,700	1,000	700	200	–	–	–	–	–
Mitsui Chemicals (4183)	FY2022	18,795	1,139	1,289	829	7,382	7,868	20,682	0.70	38.0%
	FY2023	17,497	962	741	499	7,567	8,628	22,158	0.63	38.9%
	FY2024F	18,500	1,250	1,130	730	–	–	–	–	–
Mitsubishi Chemical Group (4188)	FY2022	46,345	3,255	1,827	960	22,437	15,643	57,739	1.24	27.1%
	FY2023	43,872	2,081	2,618	1,195	22,010	17,634	61,045	1.08	28.9%
	FY2024F	46,230	2,500	2,100	520	–	–	–	–	–

*1 IFRS for SUMITOMO CHEMICAL, Mitsui Chemicals and Mitsubishi Chemical Group.
*2 Core operating income is obtained by excluding profit/loss of non-recurring items from operating income under IFRS.
*3 Net income is profit attributable to owners of parent (JGAAP) or net income attributable to owners of the parent (IFRS).
*4 Interest-bearing debt is the sum of borrowings, corporate bonds and CP. Equity content is considered in cases where there is hybrid financing.
(Source: Prepared by JCR based on financial materials of above companies)

<Reference>

Issuer: ASAHI KASEI CORPORATION

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Resonac Holdings Corporation

Long-term Issuer Rating: A Outlook: Stable

Issuer: SUMITOMO CHEMICAL COMPANY, LIMITED

Long-term Issuer Rating: A+ Outlook: Negative

Issuer: TOSOH CORPORATION

Long-term Issuer Rating: A+ Outlook: Positive

Issuer: Mitsui Chemicals, Inc.

Long-term Issuer Rating: A+ Outlook: Positive

Issuer: Mitsubishi Chemical Group Corporation

Long-term Issuer Rating: A+ Outlook: Stable

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