

Highlights of Major Cement 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 Japan's four major cement companies (collectively, the "Companies"): Sumitomo Osaka Cement Co., Ltd. ("Sumitomo Osaka Cement"), TAIHEIYO CEMENT CORPORATION ("TAIHEIYO CEMENT"), UBE-MITSUBISHI CEMENT CORPORATION ("UBE-MITSUBISHI CEMENT") and Tokuyama Corporation ("Tokuyama") (the cement business segment only), based on the financial results for the fiscal year ended March 2024 (FY2023) and earnings forecasts for FY2024.

1. Industry Trend

Japan's domestic cement demand fell 7.3% year on year to 34.58 million tons in FY2023, a decrease for the fifth consecutive year. Demand from both the private and public sectors declined 5.7% and 9.2% year on year, respectively. Cement exports decreased 15.8% year on year to 6.86 million tons, a significant drop for the second straight year. However, exports are currently showing signs of recovery. The increase is mainly due to a reaction from a large decrease in the previous fiscal year, but profitability is improving thanks to price increases.

According to a forecast released by the Japan Cement Association in February 2024, domestic demand for FY2024 is expected to increase 1.2% year on year to 35 million tons. The public-sector demand is assumed to remain at the same level as the previous fiscal year, because the public works budget inched up but public works will face a downward pressure from factors such as rising labor costs. Private-sector demand is expected to exceed that of FY2023, as housing investments will decrease but corporate investment sentiment remains strong and semiconductor/EV-related factory investments are expected. However, in recent years, structural issues, such as labor shortage and the scarcity of craftsmen, have become increasingly important constraints on supply. In addition, there appears to be a rising number of cases where companies are postponing/canceling investment plans because of surging construction costs, etc., and JCR sees that the downward trend in domestic demand may continue going forward.

In the fall of 2021, all of the Companies announced an increase in cement prices due to surging coal prices and other factors, and over the course of about two years, they achieved significant price increases of 5,000 yen per ton. Despite coal prices having peaked, however, two major Companies, TAIHEIYO CEMENT and UBE-MITSUBISHI CEMENT, announced another price hike in May 2024. Both of them plan to implement a price increase of more than 2,000 yen per ton starting with shipments in April 2025.

2. Financial Results

Regarding the combined earnings of the cement-related businesses of the four Companies in FY2023, net sales reached 1,708.1 billion yen, up 7.3% year on year, and operating income reached 106.9 billion yen, returning to profitability from a loss of 48.9 billion yen in the previous period. The main reason for this was the improvement in the revenues of each of the Companies as a result of product price increases. Additionally, TAIHEIYO CEMENT and UBE-MITSUBISHI CEMENT were contributed by strong overseas operations as well. However, although earnings improved, looking only at the domestic cement business, Sumitomo Osaka Cement and TAIHEIYO CEMENT are reporting a segment loss. Behind this is the impact of price increases that were only realized for about six months and a decline in sales volumes.

In terms of financial structures, all three major specialized Companies, Sumitomo Osaka Cement, TAIHEIYO CEMENT and UBE-MITSUBISHI CEMENT (the "three Companies"), saw improvements. The total interest-bearing debts of the three Companies were 630.6 billion yen at end-FY2023, down 12.5% from 720.7 billion yen a year earlier. The main reason for this was a decrease in working capital with falling coal prices. In addition, total equity capital (net assets for UBE-MITSUBISHI CEMENT) stood at 1,173.8 billion yen at end-FY2023, up 13.4% from 1,035 billion yen a year earlier. The equity capital increased through profit accumulation by returning to a surplus on the bottom line. As a result, the average

equity ratio of the three Companies improved to 47.2% at end-FY2023, 3.3 percentage points higher than 43.9% a year earlier.

3. Highlights for Rating

For FY2024, the four Companies' combined earning of the cement-related business are expected to be net sales of 1,811.7 billion yen, up 6.1% year on year, and an operating income of 138.2 billion yen, up 29.3% year on year. The Companies forecast an increase in sales mainly by expanding sales volumes. For operating income, the continued effects of price increases in the previous fiscal year and falling coal prices will likely make contribution.

The highlights for rating for FY2024 are as follows: 1) the progress of the newly announced price increases, 2) domestic demand trends and production structures, and 3) the impacts of efforts toward carbon neutrality and growth investments on the financial structure.

The price increases announced by the two major Companies in May 2024 are an attempt to pass on higher logistics/labor costs in recent years. Eyes will be on whether other manufacturers follow them going forward. Moreover, price increases have been implemented so far when coal prices soared, but the negotiations this time are taking place when coal prices remain stable, though still in the high range. Attention is focused on whether users will accept further price increases.

JCR is also paying close attention to domestic demand trends and the industry's production structure. In recent years, domestic demand has often fallen short of the Companies' initial forecasts, and domestic demand this year may decline more than assumptions. Because the labor shortage is not easily dissipated, construction firms may decide to limit their orders. In addition, construction costs are rising, which could lead to a decline in investment appetite. UBE-MITSUBISHI CEMENT and Tokuyama already stopped operating the kilns in 2024, and Denka Company Limited also announced that it will stop cement production in 2025. These moves represent the industry's trend to reduce production capacity. However, if domestic demand declines more than assumptions going forward, further efforts to rebuild production structures may be necessary, in JCR's view.

JCR will also continue to monitor the impact of their carbon neutral efforts and growth investments on the financial structures. There is a growing need for new technological developments and capital investments. Each of the Companies' business plan includes capital investment plans for environmental measures to curb CO₂ emissions. However, as there are many uncertainties regarding the capital investment burden associated with new technologies, capital investments may increase more than assumed. Additionally, they are working to strengthen and grow its domestic businesses other than cement, with investment amounts increasing year by year. JCR will pay attention to the impact of these factors on the financial structures.

Naoki Kato, Hajime Inoue

(Chart 1) Net Sales and Operating Income of the Companies' Cement-related Businesses

(JPY 100 mn, %)

		FY2019	FY2020	FY2021	FY2022	FY2023	FY2024F
Sumitomo Osaka Cement (5232)	Net Sales	2,205	2,170	1,597	1,758	1,964	2,077
	Cement/Mineral Recourses/Cement-related products						
TAIHEIYO CEMENT (5233)	Operating Income	125	132	17	-156	29	86
	Cement/Material Resources/Environment/Construction Materials						
MITSUBISHI MATERIALS (5711)	Net Sales	8,743	8,479	6,778	7,817	8,593	9,320
	Operating Income	559	574	404	-12	516	786
UBE (4208)	Net Sales	2,475	2,158	2,098			
	Cement						
UBE-MITSUBISHI CEMENT (unlisted)	Operating Income	122	66	32			
	Consolidated						
Tokuyama (4043)	Net Sales	3,030	2,828	2,215			
	Cement						
Total	Operating Income	145	147	34			
	Operating income margin				5,736	5,853	6,050
Percent change in Total from the previous year	Net Sales				-284	457	430
	Operating Income						
	Net Sales	872	908	503	585	671	670
	Operating Income	38	45	-19	-37	67	80
Total	Net Sales	17,325	16,543	13,191	15,923	17,081	18,117
	Operating Income	989	964	468	-489	1,069	1,382
	Operating income margin	5.7%	5.8%	3.5%	-3.1%	6.3%	7.6%
	Net Sales	-3.6%	-4.5%	-20.3%	—	7.3%	6.1%
	Operating Income	-10.2%	-2.6%	-51.5%	—	—	29.3%

Notes:

1. Sumitomo Osaka Cement: Net Sales refer to sales to outside customers.
2. MITSUBISHI MATERIALS: There were inter-segment transfers in FY2020
3. Tokuyama: There were inter-segment transfers in FY2021

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

(Chart 2) Business Performance of Specialized Cement Companies

(JPY 100 mn, %)

		FY2019	FY2020	FY2021	FY2022	FY2023	FY2024F
Sumitomo Osaka Cement	Net Sales	2,451	2,392	1,842	2,047	2,225	2,296
	Operating Income	161	166	68	-85	73	111
	Operating Income Margin	6.6	6.9	3.7	-4.2	3.3	4.8
	Net Income	109	117	96	-57	153	103
	Shareholders' Equity	1,967	2,037	2,010	1,824	1,943	-
	Interest-bearing Debt	526	514	566	997	795	834
	Equity Ratio	61.3	61.8	60.7	51.2	54.5	-
TAIHEIYO CEMENT	Net Sales	8,843	8,639	7,082	8,095	8,863	9,600
	Operating Income	610	636	467	44	565	840
	Operating Income Margin	6.9	7.4	6.6	0.6	6.4	8.8
	Net Income	391	468	289	-332	433	620
	Shareholders' Equity	4,367	4,709	5,106	4,949	5,632	-
	Interest-bearing Debt	2,661	2,481	2,706	4,035	3,704	3,800
	Equity Ratio	42.3	45.1	46.3	39.0	42.1	-
UBE-MITSUBISHI CEMENT	Net Sales				5,763	5,853	6,050
	Operating Income				-284	457	430
	Operating Income Margin				-4.9	7.8	7.1
	Net Income				-473	246	210
	Shareholders' Equity				3,576	4,162	-
	Interest-bearing Debt				2,175	1,807	-
	Equity Ratio				41.4	44.9	-

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

<Reference>

Issuer: Sumitomo Osaka Cement Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Issuer: TAIHEIYO CEMENT CORPORATION

Long-term Issuer Rating: A Outlook: Positive

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