◆ Cosmo Energy Holdings (5021)

Financial Results for FY2020 - Financial Results Explanatory Meeting for Analysts and Investors – Summary of Q&A

－This material contains descriptions regarding future prospects. Notes are provided at the end of this material －

1. Date and time : May 14, 2021 (Fri) 10:00 a.m. – 11:00 a.m.
2. Attendees : 85 persons
3. Main questions and answers :

Q1: Please tell us the Company's approach toward improving financial strength and increasing dividends.

A1: The net debt equity ratio is likely to reach the target, which is between 1.0 to 1.5, while there is still some way to go in achieving our net worth target of ¥400.0 billion. The Company made a dividend increase two fiscal years ago, when the net debt equity ratio fell short of 2.0. Despite the net loss recorded last year with the sharp plunge in crude oil prices, the Company did not cut the dividend and it remains unchanged this year. We intend to consider a further dividend increase when our goal has been met or when we become confident about achieving the goal.

Q2: The latest forecast for the consolidated ordinary profit is ¥80.0 billion as opposed to ¥120 billion in the Medium-Term Management Plan. There is some difference in the assumptions made for crude oil prices between the two profit forecasts. Could you tell us the reason for it?

A2: The business showing a significant deviation from the Medium-Term Management Plan is the oil exploitation and production business. The major factors are assumptions for crude oil prices and the production cut at the Hail Oil Fields. The next Medium-Term Management Plan expects some recovery in the volume of production at the Hail Oil Fields. Other factors for the deviation from the Medium-Term Management Plan include that, while the domestic margin for petroleum business saw a greater improvement than expected, maintenance costs increased. The petrochemical market is also sluggish. We expect that the Company will achieve at least ¥120.0 billion in consolidated ordinary profit, helped by the recovery of crude oil prices, production volume at the Hail Oil Fields, and the petrochemical product market.

Q3: You have revised upward a target for power generation capacity to 1.5 GW in the renewable energy business segment for FY2030 target. What is the Company’s target in terms of profit?

A3: The facility capacity has been revised upward in accordance with an upward revision by the government for the target to introduce wind power generation. While we originally target ¥20.0 billion in ordinary profit for FY2030, this is beginning to look like a somewhat challenging target because of the bidding. Our target is to become one of the leading companies in the industry by 2035 to 2040, which is specifically a market share of over 10%. We expect to achieve ¥40.0-50.0 billion in ordinary profit by 2040.

Q4: Regarding the dividend increase, what kind of returns will be considered when the Company achieves a net worth of ¥400.0 billion?

A4: Due to the high volatility of petroleum business, profit fluctuates markedly depending on the crude oil prices. In this sense, the ¥400.0 billion target for net worth is very important to us as part of the Medium-Term Management Plan. When it becomes clear that the target will be achieved, returns to shareholders will probably be in the form of a dividend increase.

Q5: What is your outlook for oil product margins on the domestic market and product demand in FY2021?

A5: We expect that the overall margin for the major four products will fall by ¥16.6 billion year on year, largely due to a time lag resulting in a fall of ¥1.0/L. We have made our margin estimates quite conservative and recognized that the base margin has actually improved. We expect that the gasoline demand will be 97% compared with demand prior to the coronavirus pandemic. Demand for jet fuel will be 80%, which is rather high among the industry players because of the high ratio of jet fuel sold to cargo airlines.

Q6: You expect that ordinary profit for the renewable energy business segment will start shrinking from ¥5.0 billion level achieved in FY2019, given the initial investment for the offshore wind farms in the short run. When do you expect for the segment’s operating profit to begin to rise again.

A6: Cosmo Eco Power has been increasing its workforce for offshore wind power generation, the number of employees has increased from nearly 100 in the past to 200 now. In the future, we plan to expand to 300 or 400 employees. Meanwhile, the Company has acquired FITs for 500,000 kilowatts generated by the onshore wind power facilities from the current 300,000 kilowatts. Therefore, we expect that segment profit will return to growth in the late 2020s, although profit is tending to contract at the moment.

Q7: What is the general profile of people who have joined Cosmo Eco Power? What do you think attracts the new workforce joining Cosmo Eco Power?

A7: They are mostly mid-career employees, although we have some new college graduates. Given our shift from “Oil to New,” a significant number of workers have been seconded from the oil segment to Cosmo Eco Power. It seems that many of the mid-career employees joining Cosmo Eco Power have a keen interest in renewable energy.

Q8: Looking ahead five or 10 years from now, what is the Company’s stance on holding assets in the petroleum and the petrochemical businesses?

A8: We see the high operation rate of oil refinery facilities as a feature of the Company. Which means that the Company’s effective non-current asset use contributes to our results. As a future direction, we intend to continue raising the operation rate while reducing costs. However, since it is certain that demand will decline, we intend to review how we hold our assets by looking closely at the business environment.

Q9: What is the impact of the COVID-19 pandemic in FY2020 and FY2021?

A9: We estimate a decline in profit of ¥12.0 billion in FY2020, reflecting weak jet fuel prices and lower volume, weak sales of the four major products in volume terms, partially offset by improved import and an improvement in in-house fuel costs. We estimate that, for jet fuel alone, it is a ¥16.0 billion decline. For FY2021, we expect that jet fuel will recover by around ¥6.0 billion. However, compared with the situation prior to the pandemic, we except we will be under target by around ¥10.0 billion.

Q10: Does your dividend policy assume any particular level of payout ratio?

A10: Currently, we have not engaged in a strict examination for this. For now, we are prioritizing achieving our goal for improving our financial strength.

Q11: What is the current situation for new businesses other than wind power generation?

A11: We currently announced that all of the company-operated service stations will be introducing electricity from renewable sources for their facilities. The Sales department has been pursuing initiatives involving the leasing of EVs. Although those have not become business pillars as solid as our wind power generation business, we are planting the seeds. We are looking into other forms of energy, such as hydrogen, ammonia, synthetic fuel, and biofuel. We believe that we are able to keep pace with developments, even if we do not work on them immediately. Meanwhile, we are committed to working on the area of wind power generation because we think that an initial delay will be the fatal in this field. Either way, we will be looking at developing other businesses eventually.

Q12: Could you elaborate on the “Integration of finance and non-financial capabilities in the next Medium-Term Management Plan” and “Aiming for sustainable growth” as illustrated on page 11?

A12: The Company has been active in undertaking initiatives for environmental protection. We believe we must make further investments in protecting the environment and achieving carbon neutrality. This will be the basis for our financial plan going forward. We will undertake a TCFD scenario analysis in this year, setting targets for carbon net zero. We are looking to develop a Medium-Term Management Plan and fiscal year’s budget in line with those.

End