◆ Cosmo Energy Holdings (Securities code: 5021)
Q3 FY2024 Financial Results Briefing for Analysts and Institutional Investors Q/A

*This document contains forward-looking statements. Cautionary statements are provided at the end of the report.

1. Date and time : Friday, February 7, 2025, 10:00 to11:00 (JST)
2. Attendees : 89 persons
3. Major Questions :

Q1: I would like to confirm the background of dividend increase policy announced this time. Given that the profit level excluding impact of inventory valuation is rising, and the number of shares is decreasing following the share buyback, is it correct to understand that the decision was made with an awareness of maintaining the total dividend amount? Regarding the future, if the number of shares decreases by returning profits to shareholders based on the current shareholder return policy, will the Company be aiming to maintain the total dividend amount and increase the dividend per share if the profit level excluding impact of inventory valuation does not change?

A1: During the 7th Mid-Term Management Plan, we announced our intention to return profits to shareholders at an early stage, with a total payout ratio of at least 60% cumulatively. In FY2024, we believe this goal was met through the current announcement. The decision to increase the dividend is based on whether the Company can sustainably continue it. There may be years with fluctuating results due to time lags and other factors, but we concluded that this level can be sufficiently maintained. Additionally, because of the company's share buyback, the number of shares has declined and earnings per share have increased. Reflecting this, the dividend per share was raised, although the dividend payout ratio remained unchanged. We intend to continue responding based on this concept. Since share buybacks announced at the same time, allows for flexibility, we would like to combine it with dividend increases while depending on the situation.

Q2: Although there was a comment about maintaining the dividend payout ratio, the ratio was about 40% due to the additional return this time. Is the dividend payout ratio of approximately 40% acceptable as a management target?

A2: We would like to combine share buybacks with determine the dividend payout ratio based on the earnings level on an actual basis.

Q3: What is your outlook for FY2025? I understand that ordinary profit excluding the impact of inventory valuation in the current fiscal year is trending higher than the earnings forecast. With ordinary profit of ¥160 billion excluding the impact of inventory valuation as a starting point, what is your outlook for accumulating profit on an actual value basis toward the next fiscal year?

A3: FY 2025 is expected to have no Turn Around in the Petroleum Business, leading to a higher operating ratio compared to this fiscal year. In the Petroleum Exploration and Production Business, the increased production from the Hail Oil Field, which started at the end of December 2024, is expected to contribute to full-year results. In the petrochemical business, as announced in Q2, the sale of equity in HCP helped to improve earnings YoY. Overall, the market for petroleum products is steady, and cost increases due to inflation are being passed on to margins, which is not expected to change significantly next fiscal year. Therefore, we anticipate a positive outlook for the next fiscal year.

Q4: The forecast for shareholders' equity at the end of this fiscal year is ¥630 billion, but based on a ¥10 billion associated with the transfer of HCP's equity and ¥18 billion from the share buyback announced this time, is it possible to reach around ¥600 billion? Regarding fluctuations due to the external environment, is it possible to offset the upside of recurring profit excluding the impact of inventory valuation losses?

A4: Based on current conditions, -¥28 billion as mentioned in the question is a factor pushing down shareholders' equity. Due to fluctuations in crude oil prices and exchange rates shortly before the earnings announcement, we cannot be optimistic, but we consider covering the upside in ordinary profit excluding the impact of inventory.

Q5: What are your thoughts on the level of equity? I would like to confirm if the Company's policy is to return the entire amount of capital accumulated beyond ¥600 billion for the next fiscal year? Also, what factors influence the appropriate level of capital under the next Medium-Term Management Plan?

A5: The policy remains to return profits in principle for shareholders' equity exceeding ¥600 billion during the Medium-Term Management Plan. We are considering the next fiscal year and the next Medium-Term Management Plan, so please wait for further details.

Q6: I assume the next planned term of the Medium-Term Management Plan will be 3 or 5 years. How do you think about new areas that will boost earnings over this period? It appears that wind power is challenging. What do you think of areas likely to make quantitative contributions?

A6: Since the details will be finalized in the Medium-Term Management Plan, it is difficult to specify them now. However, we must consider the efficient way of monetization since the value and demand from green power sales are increasing. Additionally, improvements in the petrochemical field and Maruzen Petrochemical's resins for semiconductor photoresists represent growth areas.

Q7: What do you think regarding the impact of Asian market conditions next fiscal year on business performance. This fiscal year saw a significant increase in procurement from Asia due to Turn Around and short-position strategy. Will the reduced procurement next fiscal year, as operations of refineries increase without major scheduled Turn Around, lessen the impact of the Asian market?

A7: As you noted, Asian market conditions are expected to have minimal impact next fiscal year.

Q8: I think a margin environment for petroleum products as a catalyst of the 3Q results. It appears that margins have been expanding since mid-last fiscal year. How do you analyze this trend? Additionally, is the trend expected to continue as government subsidies for drastic changes in fuel oil prices decrease?

A8: Analyzing fluctuating factors of margin are complex, but various costs have been reflected in prices amid global inflation. This acceptance has led to expanding margins. Although predicting the next fiscal year's outlook is challenging, the improving margin trend due to inflation and other factors is expected to continue. Petroleum wholesalers receive subsidies to mitigate fuel oil price changes, which are passed on to consumers. Despite subsidy reductions since December last year, real margins have not been affected.

Q9: Is there an update on the capital/business alliance with Iwatani Corporation?

A9: The progress announced in the Q2 results is ongoing. The second hydrogen station in Ariake (Tokyo) under construction, and the first hydrogen station in Heiwajima (Tokyo), which opened in April 2024, is operating smoothly.

Q10: Can you confirm the nuance of the explanatory materials P11 stating continued production increases at the Hail Oil Field? Will the January 2025 level continue, or is there room for further increases?

A10: The January 2025 level will continue. Production increases began in the end of December, reaching full capacity in January, and will continue.

Q11: Regarding the impact of the fuel oil price-abatement subsidy, is there any impact on volume and demand, such as last-minute demand?

A11: When the subsidy ends, there is a slight temporary demand increase, but it can be managed through distribution responses. The rush represents front-loaded demand, with no overall increase or decrease. Over-the-counter price increases should be monitored closely for medium to long-term impacts on demand and sales volume at SS.

Q12: The discipline of equity management is appreciated, and we hope it continues next fiscal year and beyond. Excluding inventory impacts, net income and ROE remain high. For the next fiscal year, the Company's focus will be on controlling shareholders' equity and returns, and profit levels based on actual figures. However, raising PER levels for the next medium-term plan is necessary. How do you view monetization in new areas for fostering growth, and what types of new businesses outside SAF and the green power supply chain are being considered?

A12: Although not satisfied with the current ROE level, we recognize achieving a certain standard. PER and growth prospects have challenges. Originally, Vision2030 anticipated new domain profits by 2030. However, given external changes, building new businesses and mechanisms is essential. Our growth strategy for the next fiscal year and medium-term management plan will be refined accordingly.

Q13: Let me confirm the cash-flow forecast for the current fiscal year. While seeking to maintain investment cash flow for growth, how do you plan to enhance free cash-flow by increasing operation cash-flow while controlling investment cash-flow?

A13: The cash-flow forecast for the current fiscal year projects operating and investment cash-flow around ¥140 billion each, balanced. Large-scale investments in offshore wind power were planned under the Medium-Term Management Plan, but postponements have improved free cash-flow this fiscal year. However, while investment discipline is crucial, growth investment is also important. Increasing free cash-flow by merely restraining investment cash-flow is unfavorable. Thus, we will consider growth-contributing investments amid significant external changes of business environment from the Medium-Term Management Plan assumptions.

Q14: Despite maintaining the full-year forecast, I suspect clarification on the consistency of additional returns. If the forecast remains unchanged, are there concerns behind not revising earnings forecasts?

A14: The Company has aimed for a total payout ratio of 60% over the cumulative 3-year medium-term management plan. This goal remains, and timely implementation is prioritized. Though implementing the entire 60% at once was an option, the current approach is a single-year return basis. Initial plan for FY2024 announced in May 2024 shareholder returns did not meet 60% annually, setting the target within the medium-term plan's scope. Timing issues affect the reduction's implementation. Factors like sales of HCP shares and share buybacks were not included in the initial full-year forecast, potentially impacting shareholders' equity.

Q15: Concerning SAF, when will revenues become profitable although I think business started in red and how will operating ratio increase?

A15: SAF is currently in test operation. It will commence production on a large scale from April 2025. Profitability is expected from the first year rather than deficits. With limited annual output of 30,000 KL, earnings will not change significantly. However, if airlines recognize SAF's value and prices rise, slight upward adjustments are possible. But, due to its small scale, it is quite difficult to achieve significant growth. Maintenance will occur mid-first year, but near-full operation is anticipated.

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