JFE Holdings, Inc.

JFE Group Investor Meeting
(FY2020 3Q Financial Results and FY2020 Earnings Forecasts)
Summary of Q&A Session on February 9, 2021

Q. You forecast business profit in the 2H of FY2020 of JPY82.3 billion. Excluding the inventory valuation difference explained earlier, which I believe was around JPY27 billion, the underlying profit outlook would be around JPY55.3 billion. On an annualized basis, this would be around JPY110 billion. We would be formulating our earnings forecast based on this level of around JPY110 billion. Please tell me what kind of scenarios can be assumed in terms of cost, including reaping the benefits from the strengthened investment at West Japan Works etc.? Also, what is the schedule for the blast furnace repairs?

A. It is as you say regarding the underlying business profit in the 2H of FY2020. As for the operations of our new facilities in the next fiscal year, there are the new continuous casting machine, the enhanced steelmaking facility, and the No.4 blast furnace in Kurashiki that will start operation in December 2021. Additionally, there are also facilities such as the No.3 coke oven in Fukuyama. So, in the next fiscal year, the effects of these new major facilities can be expected. The continuous casting machine in Kurashiki was scheduled to start operation in February of this year, but this was delayed slightly to May due to the impact of COVID-19.

On the other hand, one of our concerns right now is the uncertainty around the impact of high raw material prices, including iron ore and coal, which is starting to rise right now. However, we intend to reflect the impact of raw material prices into selling prices at an early stage as we make progress on improving sales prices. As we have mentioned since last time, we will also be implementing price extra improvements, so we intend to solidly execute on these measures. In any case, we will make sure to turn the Steel Business on a standalone basis profitable. Based on the situation in this 2H, we expect group companies to recover to some extent. Thus, in the next fiscal year, we expect to be able to return the results at group companies to the level of typical fiscal years.

Regarding your question about the blast furnace repairs, the repair of No.4 blast furnace in Kurashiki is scheduled to be completed around the end of this year. After this repair, the operation will be resumed. In Chiba, the No.6 blast furnace is scheduled to be suspended in September 2022, and we plan to resume operation around December. Then in September 2023, around 9 months later after the No.6 blast furnace resuming, the blast furnace in Keihin will be shut down.

Q. Could you please summarize how much room there is left for crude steel production to be increased in FY2021?

A. Regarding the room for increasing production in the next fiscal year, one of the points where we see additional room for capacity is the resumption of the No.4 blast furnace in Kurashiki scheduled in December. One of the points regarding the No.4 blast furnace in Kurashiki is that we aim to increase production as faster and much as possible while keeping an eye on demand trends, by leveraging our successful experience of quick resumption of the No.4 blast furnace in Fukuyama a little while ago.

Another point where there is room for increased production is how much the pig iron tapping ratio can be increased and how much the usage rate of scrap steel can be increased.

Q. The export ratio is expected to rise to 46% in Q4 from around 40% in Q3, indicating a sharp increase. What are the reasons behind this increase?

A. There are two factors behind the increase in the export ratio. First, we expect a slight increase in export volume in Q4 compared to Q3. But the factor with an especially large impact is the price. Although the price has been rising since Q3, there is a slight time lag until this is reflected financially. Thus, we expect a more substantial increase in export prices in Q4. For those reasons, the export ratio is expected to rise in Q4 compared to Q3.

Q. Regarding the sales price improvements, to what extent do you expect to be able to achieve under the relatively tight supply-demand balance during the 2H?

A. As you have pointed out, the supply-demand balance has recently been very tight. Also, the market prices in Japan and overseas have been rising sharply. In that respect, the current market environment is favorable. Especially for prices of contract customers in Japan, we are continuing to hold discussions with customers, and we have gained their understanding through those discussions at a certain level. We will continue sincere and careful discussion with customers.

Q. Compared to the previous forecast, you expect an improvement of JPY23 billion coming from the spread between the selling price and raw material. You also mentioned that the impact of the spread is net-zero for the new YoY comparison. I believe the point here is that even though raw material prices rose more than anticipated, the selling price rose even higher, led by the products linked to market prices. Please let me confirm your thoughts on the spread.

A. We stated that we expect the spread to improve by JPY23 billion, but, to be honest, almost all of it is attributable to the improvement in overseas market prices. You mentioned the rise in raw material prices, and your understanding is correct in terms of iron ore prices that have risen above our previous assumption. However, the price of coking coal is lower than our previous assumption. Therefore, raw material prices have not risen that much. From the standpoint of raw materials, these factors have offset each other. As a result, our image is that the surplus from export prices has remained in comparison to the previous forecast.

Similarly, as for the net-zero impact over the full year, the selling price is negative, while the raw material price is positive. Quantitatively, about JPY40 billion to JPY50 billion of positive and negative factors are offsetting each other. As I just stated, the impact of selling prices narrowed compared to the previous announcement due to the sharp improvement in exports recently. As for raw materials, the price of iron ore has risen compared to last year, but the drop in coking coal price is very large, so there is a surplus from that. Consequently, the impact on the spread is roughly net-zero.

Q. Could you give me any hints regarding the improvement trend of profits at overseas bases, such as at JSW Steel in India?

A. In terms of India, the business conditions were severe due to COVID-19 during the April to June period last year. However, the automobile industry in India staged a rapid recovery since around July. Overall, the GDP of the Indian economy was initially expected to contract by 14%, but now it has returned to about half of that. Against that backdrop, the operation rate at JSW has returned to the pre-pandemic level since July.

In terms of China, the economy recovered from the pandemic very quickly, and the production volume of automobiles has returned. As for Guangzhou JFE Steel Sheet, we expect profit to return to around the same level as last year.

However, we think the situation remains somewhat challenging in Indonesia and Thailand. In Thailand, automobile production has been showing sharp recovery in a recent few months, but over the full year, it will be around 70% compared to the previous year. So we are making adjustments to operations accordingly.

Q. Please tell me the reason why you expect the crude steel production volume to be flat from Q3 to Q4.

A. We lifted the banking of the No.4 blast furnace in Fukuyama and resumed operations quickly. So the operation rate and capacity utilization rate have risen considerably in 3Q. At present, in the 2H, they have already reached around 85% or 90%.

Q. Please give me any hints you might have as to how much cost reductions can be expected in the next fiscal year.

The scope of cost reductions has been widened this year due to the circumstances, allowing us to slash costs by a substantial JPY100.0 billion. However, we believe the impact accompanying the start of facilities going forward, in contrast to that, will be added on at the usual level. By usual, we mean the level you would be able to see if you look at historical trends. We assume a level of several tens of billions of yen in the next fiscal year.

Q. As for the Q3 accounting period, the business profit was JPY53.1 billion for 5.42 million tons shipped. Looking back at historical results, the last time you achieved JPY50 billion or higher in profit on a quarterly basis was in FY2018 Q3. Back then, the business profit was slightly less than JPY60 billion for 6.24 million tons shipped. I believe the level of shipment in FY2020 3Q is around 15% lower than in FY2018 Q3. Is it fair to say that the profit structure is currently improving?

A. As you point out, the last time that we generated this level of profit was in FY2018. I think the level you mentioned is correct on a profit basis, given that the profit was around the same level last time when considering the differences in inventory valuation etc. Especially this time, there has been a substantial impact from export prices, as we have mentioned earlier, resulting in a rise in profitability, too. Another point, is the cost reduction under the harsh circumstances this year. We have made significant efforts toward cost reduction, including fixed costs. When considering the impact of that in Q3 or the second half, then I think the profitability is increasing.

Q. The underlying profit for the Steel Business is expected to be JPY29.2 billion in the 2H of FY2020. On an annualized basis, that is around JPY60 billion, but there is still a large difference in profit level compared to FY2017. Could you please organize the reason for this difference?

A. As you just mentioned, there is a still a large difference between the forecast figure for the 2H of FY2020 and the figures for FY2017. One of the major reasons for this is the difference in volume. The crude steel production volume back in FY2017 was over 28 million tons in a year. The production volume in the 2H of FY2020 on an annualized basis would be at the level of 25 million tons, so there is a difference of slightly more than 3 million tons in crude steel production volume.

There is a difference in crude steel volume at the parent company, but also at group companies, the profit level in the 2H is still around 70% compared to the peak around FY2017.

Q. I am looking at page 25. It says here that you will continue optimum production. If there are any updates on this point from the previous results announcement, could you share that with us, please?

A. We will need to advance measures such as raising the pig iron tapping ratio and increasing usage of scrap in the next fiscal year, while keeping an eye on steel demand and price. Increasing usage of scrap will be the countermeasure not only against iron source but also CO2 reduction.

Q. You announced on page 31 this time that 1.5 GPa-grade super high-tensile strength cold-rolled steel sheets were adopted. Given that the adoption of steel sheets for hot pressing is advancing at press manufacturers, should I expect that the adoption of this kind of super high-tensile strength steel sheets at the level of 1.5 GPa will progress in the future?

A. Certainly, there are discussions about hot pressing, but we are carrying out product development while consulting with customers. To increase the usage of what we have made, we are not just promoting the usage, but also advancing activities together including our research lab. We believe the need for high-tensile strength steel sheets is high accompanying the advancement of lightweight cars and the electrification of cars in the future. We would like to advance development jointly with customers to meet those needs.