Toyota Tsusho Corporation

Earnings Briefing for Third Quarter of Fiscal Year Ending March 31, 2023 (FY2022)
Condensed Transcript of Q&A Session

Date & time: Friday, February 3, 2023, 18:30–19:30

Attendees: Yasushi Aida, Assistant to CFO

Q. Earnings in the Chemicals & Electronics Division in the third quarter didn't weaken and remained brisk. Can this be sustained going forward?

A. We were certainly concerned about the sluggish semiconductor business and high inventory level in the second quarter, but demand for automotive applications remained brisk in the third quarter, even though smartphone and PC demand was weak. Inventory turned to decline as a result of efforts across the entire supply chain, not just by us, to normalize levels. As for earnings sustainability, going by what the external environment is telling us, we think it will be hard to generate profit levels like before, so we think a cautious approach is warranted up ahead.

Q. Automotive Division earnings were even stronger in the third quarter. Can this be sustained? Do you anticipate the risk of a decline in the per-vehicle margin and weaker demand in emerging markets?

A. In the second quarter, we felt particularly apprehensive about impacts pertaining to Russia, but a positive factor was that we were able to sell vehicles in the Caucasus and Adria regions by shifting vehicle deliveries to neighboring countries. Sales also remained firm in Cambodia and Papua New Guinea. We see no changes in the situation at present, so we will continue to build up inventory to meet demand.

Q. Do you think the Automotive Division can maintain this strong performance next fiscal year and beyond?

A. If geopolitical risks die down and the supply-demand balance normalizes from next fiscal year onwards, we think the high profit levels seen thus far will be hard to replicate.

Q. Automobile production is lackluster overall, but your automotive sales remain firm. What are the reasons for this?

A. We think it's because we have continued to build on our sales track record and meet expectations, thereby receiving constant vehicle supplies .

Q. Earnings at Eurus were solid again in the third quarter. What are the business conditions like in Europe? What kind of profit outlook do you have for next fiscal year, taking into account the ceiling on electricity prices?

A. Our wind power business in Europe is centered on the Netherlands, Spain, and Italy, but the biggest contribution to profit came from our wholly owned subsidiary in the Netherlands. Projects in the Italy and Spain are incorporated under the equity method, but the tariff benefits have been favorable. Prices in the Netherlands have been falling, while in Italy they have more or less reached the ceiling, so we think profit next fiscal year won’t be as high as this year.

Q. Your fourth quarter results forecast is somewhat conservative. Why haven’t you revised the figures? Do you expect to book one-off losses?

A. We are concerned about a so-called “overlap loss” because metal prices are starting to decline. As for one-off losses, we have left our earnings forecasts intact because we are worried about replacement costs at Eurus and the struggling performance of the African beverages business, which has prompted us to consider the need for loss provisions.

Q. Other trading companies are revising their shareholder policies. What are your plans in this regard?

A. We realize that we will need to update our usual dividend payout ratio target of at least 25%, and we are currently discussing this matter internally so that we can announce a policy based on our new medium-term business plan.

Q. How big are the one-off losses you expect to book in the fourth quarter?

A. We forecast roughly 5.0 billion yen in replacement costs at Eurus and a few billion yen in the African beverages business.

Q. Looking ahead to this fiscal year and the next, what factors in particular do you think will slacken?

A. We expect to see metal prices decline up ahead, including for lithium, so we think conditions will be tougher next fiscal year. At Eurus too, energy prices have started to subside and we don’t expect to see profits on a par with this fiscal year. You could even say it’s a normalization of prices. In the Chemicals & Electronics Division, we think profit levels in the semiconductor business will shrink, but because we supply more than just automotive semiconductors, we hope to prop up earnings with solid results for chemicals and other products.