Toyota Tsusho Corporation
Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2018
Condensed Transcript of Q&A Session

Date & time: July 28, 2017 (Friday) 18:00–18:45
Attendees:
Hiroshi Tominaga, Member of the Board Managing Executive Officer CSO/CIO
Hideyuki Iwamoto, Member of the Board Managing Executive Officer CFO

Your first-quarter operating profit was equivalent to a hefty 31% of your full-year operating profit forecast. How did individual segments perform relative to forecast and what is your outlook for the rest of the fiscal year?

First-quarter operating profit usually exceeds 25% of our full-year forecast as a result of dividend income. In the current fiscal year, our businesses performed well in the first quarter. The Metals and Global Parts & Logistics Divisions achieved year-on-year growth and outperformed their forecasts by virtue of better-than-expected demand connected with auto production. In the Machinery, Energy & Project Division, Eurus Energy Holdings performed solidly and the Chemicals & Electronics Division saw robust trading volumes in car electronics and other products. We were favorably impressed with first-quarter performance across the board. Although the Africa Division's first-quarter operating profit was down year on year, the decline was due to year-earlier one-time factors. By region, first-quarter earnings growth drivers included full-size vehicle production in the U.S., continuation of tax breaks on vehicle purchases in China and new-model (C-HR) production in Europe.

Our initial exchange rate assumptions (105 yen/US dollar, 115 yen/euro) remain unchanged for the second quarter and beyond. The euro may strengthen but we do not do much business invoiced in euros, so the impact of any euro appreciation should be minor. In terms of exchange rate sensitivity, we estimate that if all currencies were to move the equivalent of one yen against the U.S. dollar in unison, the resultant impact on our profit for the year would be about 600 million yen.

We expect the status quo to more or less persist through the second quarter.

The Metals Division's first-quarter profit for the period was around 10 billion yen when adjusted to exclude one-time losses. Do you expect it to remain at the same level going forward?

Both metal prices and demand have recently been overall positives for us. We expect them to remain so through at least the second quarter. The outlook beyond that is currently uncertain.

What is your outlook for businesses related to auto production in the second quarter and beyond?

Metal prices are buoyant and demand for pickup trucks and other large vehicles is growing. We expect auto-parts shipments to also be brisk. Production plans are mostly visible through the second quarter. The first quarter's favorable conditions should persist through the second quarter.

Was the metal recycling business's good performance due to higher prices?

It was mainly due to improvement in spreads.

With U.S. auto production stuck below its year-earlier level, how did you do so well in the first quarter?

Sales of passenger cars like the Corolla and Camry are languishing, but sales of large pickup trucks and other such models remain buoyant. Full-sized vehicles account for a growing share of revenue in our auto manufacturing business also. This trend was contributing factor to our strong first-quarter performance.

What were the factors behind the Machinery, Energy & Project Division's strong operating profit growth?

Eurus Energy's robust earnings growth, overhead cost-cutting and suspension of certain natural gas projects on which we incurred losses in the year-earlier quarter.

In the Chemicals & Electronics Division, what were the factors behind the electronics business's 1.9 billion yen year-on-year increase in first-quarter operating profit?

It was largely due to earnings growth in the car electronics space, which in turn was partly attributable to synergies from the NEXTY Electronics merger. Smartphone- and amusement-related demand also are recovering.

Do you see any signs that CFAO's auto sales, beverage and retail businesses have bottomed?

Its auto sales are still depressed in resource-producing countries such as the Republic of Congo, Chad and Central African Republic, but they have started to turn upward in some non-resource-dependent countries such as Burkina Faso and Côte d'Ivoire. Its Asian auto sales were down year-on-year in the first quarter, due to a reflexive contraction in Vietnamese demand in the wake of the demand surge that preceded last year's tax hike. However, the Asian sales decline was offset by sales growth in West Africa and the Maghreb region. Overall, CFAO's first-quarter auto sales were pretty much flat.

In the beverage business, CFAO continues to command a large share of the Congolese market but it is under pressure from intensification of competition. In Côte d'Ivoire, by contrast, CFAO's new beverages are gaining market share. The retail business remains in a downtrend but the downtrend is tapering off on a year-on-year basis.

What were CFAO's first-quarter earnings on the old basis predating the Africa Division's establishment?

Its first-quarter operating profit was 6.3 billion yen, down 2.1 billion yen from 8.4 billion yen in the year-earlier quarter. Non-recurrence of a year-earlier gain on the sale of non-current assets accounted for 1.2 billion of this 2.1 billion yen decrease. Adjusted to exclude this one-time gain's impact, CFAO's first-quarter operating profit was down about 900 million yen, mostly in the beverage business.