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Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Japanese GAAP]



February 8, 2023

Company name: PACIFIC METALS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 5541

URL: <https://www.pacific-metals.co.jp/en/>

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Scheduled date of commencing dividend payments: –

Availability of supplementary briefing materials on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (April 1, 2022 – December 31, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2022	27,518	(33.8)	(6,718)	–	(580)	–	(1,195)	–
December 31, 2021	41,554	80.6	2,506	–	8,296	288.2	7,131	270.5

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥(2,113) million [–%]

Nine months ended December 31, 2021: ¥7,551 million [66.5%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	(61.32)	–
December 31, 2021	365.68	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	82,704	75,016	90.4
As of March 31, 2022	89,852	80,153	88.9

(Reference) Equity: As of December 31, 2022: ¥74,729 million

As of March 31, 2022: ¥79,866 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	–	20.00	–	155.00	175.00
Fiscal year ending March 31, 2023	–	0.00	–		
Fiscal year ending March 31, 2023 (Forecast)				0.00	0.00

(Note) Revision from the latest released dividends forecast : None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	35,318	(38.2)	(9,736)	–	(2,664)	–	(3,061)	–	(156.96)

(Note) Revision from the latest released financial results forecast : Yes

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation on Operating Results

During the nine months ended December 31, 2022 (the “period under review”), the Japanese economy saw a pickup in corporate earnings, personal consumption, and other factors, though it was influenced by the trend in COVID-19. There was a recovery trend with weakness seen in the Japanese economy, as the simultaneous occurrence of the high resource prices and the appreciation of the U.S. dollar affected business activities etc.

As for overseas economies, although there was steady performance in the employment and income environment in general, a high level of uncertainty continued due primarily to the impact of concerns about the resurgence of COVID-19, financial and capital market fluctuations, the prolonged situation in Ukraine, and concerns about economic slowdown driven by accelerating inflation.

Under these circumstances, in the stainless steel industry, the primary source of demand for the nickel business that accounts for the majority of the Group’s sales and profit and loss, demand trended to recover in line with trends towards the normalization of economic activities, while there was increasing uncertainty in the market condition due to the impact of China’s COVID policy and the sluggish real estate market in China, concerns about the prolonged situation in Ukraine, and other factors, with capacity utilization rates of production facilities starting to vary.

As a result, the demand for ferronickel showed slowdown.

On the procurement front, prices of nickel ore, the primary raw material for ferronickel products, have remained high against the backdrop primarily of the impact of Indonesia’s unprocessed ore export ban and a robust demand for nickel ore. Moreover, prices of raw materials and fuel as well as of electricity used in the manufacturing process rose sharply in line with the steep rise in resource prices globally, resulting in acceleration of the rate of the increase in production costs.

Nickel prices on the London Metal Exchange (LME) were at a relatively high level. However, in addition to the impact of financial and capital market fluctuations, complex factors related to the situation in Ukraine, and unstable prices of crude oil and other commodities, there were also concerns about an economic slowdown due to accelerating inflation, and prices remained directionless.

In this situation, the Company’s ferronickel sales volume was planned modestly due to the impact of production decrease caused by the electric furnace molten material leakage incident that occurred in one of the three furnaces in the ferronickel manufacturing facilities just before the end of the previous fiscal year. In addition, the Company changed its policy with the objective of strategically controlling volume to a certain level so as not to impair profitability, in view of the easing of the nickel supply-demand balance and because overseas producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage, even including with respect to production costs, and the price of nickel pig iron is also affecting the selling price of the Company’s products. As a result, the ferronickel sales volume decreased by 54.6% year on year as a whole due to a decrease in both domestic and overseas sales.

The ferronickel production volume decreased year on year due to the impact of the electric furnace molten material leakage incident. Regarding the affected unit of the production facilities, although its restoration was expected to be in the third quarter of this fiscal year, this has been postponed until the next fiscal year. The plan to resume its operation in the next fiscal year is unchanged. While closely monitoring the business environment, the Company will resume operation of the said electric furnace once the volume control policy is lifted.

Amid continued responses to the increasingly uncertain business environment, the selling price of ferronickel products increased as the LME nickel price applicable to the Company increased by 39.0% year on year and the average exchange rate of Japanese yen against U.S. dollar applicable to the Company was 22.8% weaker year on year. On the other hand, the price of nickel pig iron, which has a price advantage, is affecting the selling price of the Company’s products. Therefore, the Company also refers to the price of nickel pig iron in addition to the applicable LME nickel price and the applicable exchange rate in setting the selling price of the Company’s products, and thus the selling environment is rapidly changing into a difficult one with stagnant revenue growth.

Although the COVID-19 pandemic and the situation in Ukraine are expected to continue as mentioned above, the Company continues to implement measures in response to the highly uncertain business environment. To further strengthen its earnings base, the Company is striving to thoroughly focus on the profitability of orders, thereby building a flexible production and sales system. Furthermore, the Company continues its efforts to improve business performance and stabilize earnings through measures such as the early realization of overseas business development and new mine development as well as reinforcement of operational efficiency improvement measures to pursue cost minimization.

As a result, consolidated net sales for the period under review decreased by 33.8% year on year to ¥27,518 million. On the profit front, the Company posted operating loss of ¥6,718 million (compared with operating profit of ¥2,506 million for the same period of the previous fiscal year), owing to an increase in cost of sales due to an inventory write down following a downturn in profitability, on top of the decrease in net sales, and ordinary loss was ¥580 million (compared with ordinary profit of ¥8,296 million for the same period of the previous fiscal year), reflecting the recording of ¥5,600 million in share of profit of entities accounted for using equity method under non-operating income and expenses. Loss attributable to owners of parent was ¥1,195 million (compared with profit attributable to owners of parent of ¥7,131 million for the same period of the previous fiscal year).

Operating results by business segment are as follows.

(i) Nickel business

The operating results of the nickel business are described in “(1) Explanation on Operating Results.”

As a result, net sales in this segment decreased by 34.0% year on year to ¥26,977 million with operating loss of ¥6,559 million (compared with operating profit of ¥2,614 million for the same period of the previous fiscal year).

(ii) Gas business

In the gas business, the Company maintained a stable operation, but this segment recorded a loss due partly to the recording of costs associated with facility repair.

As a result, net sales in this segment increased by 29.5% year on year to ¥579 million with operating loss of ¥8 million (compared with operating loss of ¥5 million for the same period of the previous fiscal year).

(iii) Other

The segment of other businesses recorded a loss. The real estate business had few sales, and the waste recycling business's order-taking was sluggish.

As a result, net sales in this segment decreased by 87.3% year on year to ¥38 million with operating loss of ¥157 million (compared with operating loss of ¥109 million for the same period of the previous fiscal year).

(2) Explanation on Financial Position

Assets, liabilities, and net assets of the Group as of December 31, 2022 are as follows.

Total assets decreased by ¥7,148 million from the end of the previous fiscal year to ¥82,704 million.

Current assets decreased by ¥6,919 million from the end of the previous fiscal year mainly due to a decrease in cash and deposits resulting from the settlement of merchandise and finished goods, despite an increase in merchandise and finished goods and other items impacted by the maintenance of planned inventory quantity and an increase in raw material and fuel prices.

Non-current assets decreased by ¥228 million from the end of the previous fiscal year mainly due to a decrease in investment securities resulting from a drop in the market price of some stocks held, despite an increase in property, plant and equipment resulting from investment in maintenance/replacement. Investment securities held by the Company amounting to ¥23,154 million consisted mainly of ¥14,923 million in the amount reflected in the consolidated balance sheet of shares of entities accounted for using equity method, ¥2,378 million in shares of subsidiaries and associates, and ¥5,316 million in shares of Nickel Asia Corporation, a holding company of the Company's equity-method affiliates listed on the Philippine Stock Exchange.

Total liabilities decreased by ¥2,010 million from the end of the previous fiscal year to ¥7,688 million.

Current liabilities decreased by ¥1,639 million from the end of the previous fiscal year primarily owing to a decrease in income taxes payable in line with the payment of income taxes and other factors.

Non-current liabilities decreased by ¥370 million from the end of the previous fiscal year mainly due to a decrease in deferred tax liabilities resulting from a drop in the market price of some stocks held.

Total net assets decreased by ¥5,137 million from the end of the previous fiscal year to ¥75,016 million.

Shareholders' equity decreased by ¥4,220 million resulting from the recording of loss, the payment of dividends, and other factors. Accumulated other comprehensive income decreased by ¥915 million resulting from a decrease in valuation difference on available-for-sale securities. Non-controlling interests decreased by ¥1 million.

(3) Forward-looking Statements Including Consolidated Financial Results Forecast

With regard to the consolidated financial forecast, the economic outlook remains highly uncertain as COVID-19 and the situation in Ukraine continue to affect the domestic and overseas economies.

On the volume front, the Company expects a challenging business environment with results expected to fall short of the previously announced plan. In addition to the impact of the electric furnace molten material leakage incident that occurred in one of the three furnaces in the ferronickel manufacturing facilities just before the end of the previous fiscal year, this is because the Company changed its policy with the objective of strategically controlling volume to a certain level so as not to impair profitability. This decision reflects the continued easing of the nickel supply-demand balance from the second quarter. It was also taken because producers of stainless steel are shifting some of their procurement to nickel pig iron, which has a price advantage, including with respect to production costs, and the price of nickel pig iron is also affecting the selling price of the Company's products. Regarding the electric furnace whose operation has been suspended owing to the leakage accident, although its restoration was expected to be in the third quarter of this fiscal year, this has been postponed until the next fiscal year. The plan to resume its operation in the next fiscal year is unchanged. While closely monitoring the business environment, the Company will resume operation of the said electric furnace once the volume control policy is lifted.

On the selling price front, the LME nickel price applicable to the Company, which is used as an indicator for determining the selling prices of the Company's ferronickel products, remains at a relatively high level. On the other hand, the price of nickel pig iron, which has a price advantage, is affecting the selling price of the Company's products. Therefore, the Company also refers to the price of nickel pig iron in addition to the applicable LME nickel price and the applicable exchange rate in setting the selling price of the Company's products, and thus an impact on net sales is expected.

On the procurement front, prices of nickel ore, the primary raw material for ferronickel products, remain high. Moreover, the rate of the increase in production costs is accelerating following sharp rises in prices of raw materials and fuel as well as of electricity used in the manufacturing process in line with the steep rise in resource prices globally. These factors are expected to have a significant impact on profit.

Although the impacts of COVID-19 and the situation in Ukraine are expected to continue in this fiscal year, response measures to address such business environment are consistent with activities to be undertaken under the basic policies set forth in the Group's Medium-term Management Plan, and the Company will continue to strongly push forward with these measures.

Based on the above, the Company revised its consolidated financial results forecast announced on October 28, 2022 as follows and also reviewed underlying assumptions.

<Reference>

[Revisions to financial results forecast]

Revisions to consolidated financial results forecast for the fiscal year ending March 31, 2023 (April 1, 2022 through March 31, 2023)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previously announced forecast (A) (Announced on October 28, 2022)	35,548	(9,997)	(3,493)	(3,711)	(190.28)
Revised forecast (B)	35,318	(9,736)	(2,664)	(3,061)	(156.96)
Change (B–A)	(230)	261	829	650	
Change (%)	(0.6)	—	—	—	
(Reference) Actual results for the previous fiscal year ended March 31, 2022	57,129	4,806	12,999	11,368	582.93

[Revisions to underlying assumptions]

	Sales volume (t)			Production volume (t)		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Previously announced forecast (Announced on October 28, 2022)	5,668	7,332	13,000	8,079	5,857	13,936
Revised forecast	5,668	6,832	12,500	8,079	5,405	13,484
(Reference) Actual results for the previous fiscal year ended March 31, 2022	12,957	14,103	27,060	11,874	14,375	26,249

	Applicable LME nickel price (\$/lb)			Applicable exchange rate (¥/\$)		
	1st half	2nd half	Full year	1st half	2nd half	Full year
Previously announced forecast (Announced on October 28, 2022)	12.12	10.03	10.94	131.49	134.12	132.98
Revised forecast	12.12	10.95	11.48	131.49	138.88	135.53
(Reference) Actual results for the previous fiscal year ended March 31, 2022	8.12	9.33	8.75	109.16	113.97	111.67

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	26,332	12,091
Accounts receivable - trade	13,994	10,918
Securities	2,999	1,499
Merchandise and finished goods	5,649	11,425
Work in process	453	480
Raw materials and supplies	5,587	10,246
Other	2,867	4,300
Allowance for doubtful accounts	(2)	(1)
Total current assets	57,882	50,962
Non-current assets		
Property, plant and equipment	7,734	8,330
Intangible assets	1	1
Investments and other assets		
Investment securities	23,903	23,154
Other	336	260
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	24,234	23,409
Total non-current assets	31,970	31,742
Total assets	89,852	82,704

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,341	1,517
Accrued expenses	1,761	1,483
Income taxes payable	1,026	1
Provision for bonuses	444	31
Other	935	834
Total current liabilities	5,508	3,869
Non-current liabilities		
Retirement benefit liability	122	27
Deferred tax liabilities	2,077	1,839
Deferred tax liabilities for land revaluation	631	631
Provision for environmental measures	5	36
Provision for loss on litigation	34	-
Provision for loss contract	1,306	1,273
Other	11	10
Total non-current liabilities	4,190	3,819
Total liabilities	9,699	7,688
Net assets		
Shareholders' equity		
Share capital	13,922	13,922
Capital surplus	3,481	3,481
Retained earnings	58,590	54,371
Treasury shares	(450)	(452)
Total shareholders' equity	75,542	71,322
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,603	3,067
Revaluation reserve for land	593	593
Foreign currency translation adjustment	(969)	(357)
Remeasurements of defined benefit plans	95	104
Total accumulated other comprehensive income	4,323	3,407
Non-controlling interests	287	286
Total net assets	80,153	75,016
Total liabilities and net assets	89,852	82,704

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended December 31

(Million yen)

	For the Nine months ended December 31, 2021	For the Nine months ended December 31, 2022
Net sales	41,554	27,518
Cost of sales	36,653	32,463
Gross profit (loss)	4,901	(4,944)
Selling, general and administrative expenses		
Selling expenses	1,291	663
General and administrative expenses	1,103	1,110
Total selling, general and administrative expenses	2,394	1,773
Operating profit (loss)	2,506	(6,718)
Non-operating income		
Interest income	6	8
Dividend income	418	459
Rental income from real estate	77	77
Share of profit of entities accounted for using equity method	4,934	5,600
Foreign exchange gains	391	28
Other	115	106
Total non-operating income	5,943	6,280
Non-operating expenses		
Interest expenses	0	0
Foreign withholding tax	58	63
Provision for environmental measures	–	30
Other	94	47
Total non-operating expenses	153	142
Ordinary profit (loss)	8,296	(580)
Extraordinary income		
Gain on sale of non-current assets	–	0
Gain on sale of investment securities	–	386
Total extraordinary income	–	386
Extraordinary losses		
Impairment losses	317	–
Loss on retirement of non-current assets	23	101
Loss on retirement of inventories	–	34
Total extraordinary losses	341	135
Profit (loss) before income taxes	7,955	(329)
Income taxes - current	547	494
Income taxes - deferred	265	373
Total income taxes	812	868
Profit (loss)	7,142	(1,197)
Profit (loss) attributable to non-controlling interests	10	(1)
Profit (loss) attributable to owners of parent	7,131	(1,195)

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the Nine months ended December 31, 2021	For the Nine months ended December 31, 2022
Profit (loss)	7,142	(1,197)
Other comprehensive income		
Valuation difference on available-for-sale securities	292	(1,539)
Deferred gains or losses on hedges	(11)	–
Remeasurements of defined benefit plans, net of tax	37	13
Share of other comprehensive income of entities accounted for using equity method	90	609
Total other comprehensive income	409	(915)
Comprehensive income	7,551	(2,113)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,540	(2,111)
Comprehensive income attributable to non-controlling interests	10	(1)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.