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Consolidated Financial Results for the Six Months Ended September 30, 2024 [JGAAP]

November 8, 2024

Company Name: Kanto Denka Kogyo Co., Ltd.

Stock Exchange Listing:
Tokyo

Code Number: 4047 <https://www.kantodenka.co.jp/english/>

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Scheduled date for submitting the Semi-annual Securities Report: November 8, 2024

Scheduled date to commence dividend payments: December 9, 2024

Availability of supplementary briefing material on financial results: Yes

Financial results briefing session: Yes (For institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Consolidated financial results for the first half of the fiscal year ending March 31, 2025

(April 1, 2024–September 30, 2024)

(1) Consolidated operating results

(% figures are the rate of year-on-year increase or decrease)

	Net sales		Operating profit (loss)		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2024	31,265	-10.3	1,721	—	2,412	—	1,432	456.5
Six months ended September 30, 2023	34,840	-6.6	(428)	—	137	-98.1	257	-95.0

(Note) Comprehensive income:

Six months ended September 30, 2024: ¥2,359 million (13.6%)

Six months ended September 30, 2023: ¥2,077 million (-68.5%)

	Basic earnings per share	Diluted basic earnings per share
	Yen	Yen
Six months ended September 30, 2024	24.93	—
Six months ended September 30, 2023	4.48	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2024	121,736	67,508	54.2	1,147.82
As of March 31, 2024	125,302	65,578	51.1	1,114.07

(Note) Equity capital:

As of September 30, 2024: ¥65,950 million

As of March 31, 2024: ¥64,006 million

2. Dividends

	Annual dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Fiscal year ended March 31, 2024	Yen —	Yen 7.00	Yen —	Yen 7.00	Yen 14.00
Fiscal year ending March 31, 2025	—	8.00			
Fiscal year ending March 31, 2025 (Forecast)			—	8.00	16.00

(Note) Revision of dividend forecast from the latest announcement: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2025

(April 1, 2024–March 31, 2025)

(% figures are the rate of year-on-year increase or decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	63,400	-2.1	3,800	—	4,400	—	2,850	—	49.60

(Note) Revision of performance forecast from the latest announcement: Yes

Notes:

(1) Significant changes in the scope of consolidation during the first half: Not applicable

New: — companies (company names); Removed: — companies (company names)

(2) Application of special accounting for preparing the consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

i. Changes in accounting policies accompanying amendments to accounting standards, etc.: None

ii. Changes in accounting policies other than i.: None

iii. Changes in accounting estimates: None

iv. Retrospective restatement: None

(4) Number of shares issued (common stock)

i. Number of shares issued at the end of the period (including treasury shares)

ii. Number of treasury shares at the end of the period

iii. Average number of shares during the period

As of September 30, 2024	57,546,050 shares	As of March 31, 2024	57,546,050 shares
As of September 30, 2024	88,481 shares	As of March 31, 2024	93,207 shares
As of September 30, 2024	57,453,953 shares	As of September 30, 2023	57,452,913 shares

Note: The “Consolidated Financial Statements for the Six Months Ended September 30, 2024” are not subject to audit by a certified public accountant or an auditing firm.

Proper use of performance forecasts, and other special matters

(Notes to forward-looking statements)

The performance outlooks and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and are not intended to be a promise by the Company that they will be realized. Actual results may differ significantly due to various factors. Please refer to "Consolidated earnings forecasts" on page 3 of the attached materials for information on the performance forecasts.

(How to obtain supplementary financial results briefing materials)

The Company plans to hold a financial results briefing for institutional investors and securities analysts on Wednesday, November 20, 2024. Supplementary financial results briefing materials to be used at this briefing will be posted on the Company's website after the session.

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1. Overview of operating results, etc.

(1) Operating results

In the first half of the fiscal year ending March 31, 2025, the Japanese economy showed signs of a gradual recovery due to the positive effects of various government policies under an improving employment and income environment. However, severe conditions continued to prevail. Overseas, the outlook remained uncertain due to the need for caution amid downside risks stemming from high interest rates in Europe and the United States and the stagnation of the real estate market in China, as well as inflation, geopolitical tensions in the Middle East, and fluctuations in financial and capital markets.

Amid this business environment, net sales for the first half amounted to ¥31,265 million, down ¥3,575 million or 10.3% year on year, mainly due to decreased sales primarily in the Fine Chemicals Division and Fundamental Chemicals Division, despite the Group's active efforts in marketing. On the profit front, the Group recorded an ordinary profit of ¥2,412 million and profit attributable to owners of parent of ¥1,432 million. In the first six months of the previous year, we recorded an ordinary profit of ¥137 million and profit attributable to owners of parent of ¥257 million. This was mainly due to the cost of sales remaining at a high level owing to an inventory balance affected by the surge in the price of raw materials for batteries and a loss on valuation of inventories to reflect the deterioration in selling prices.

The following provides an overview for each segment.

a. Fundamental Chemicals Division

For inorganic products, sales of caustic soda decreased year on year due to a reduction in sales volume resulting from the discontinuation of certain product lines and a decline in selling price caused by worsening market conditions. Hydrochloric acid sales increased due to price adjustments.

For organic products, an increase in trichloroethylene and perchloroethylene sales volumes caused sales to rise year on year, despite a decline in selling prices.

As a result of the above, net sales in the Fundamental Chemicals Division amounted to ¥3,961 million, down ¥432 million or 9.8% year on year. An operating loss of ¥525 million was recorded (compared to an operating loss of ¥3 million in the first half of the previous fiscal year), due to recognition of a loss on valuation of inventories in addition to the decline in net sales.

b. Fine Chemicals Division

Sales of specialty gases for semiconductors increased year on year due to higher sales volume for nitrogen trifluoride, tungsten hexafluoride, and hexafluoro-1,3-butadiene.

Sales of lithium hexafluorophosphate, a battery material, were down due to a decrease in sales volume and selling price. Technical support fees received under license agreements decreased.

As a result of the above, net sales in the Fine Chemicals Division amounted to ¥24,857 million, down ¥3,346 million or 11.9% year on year. Operating profit was ¥1,825 million compared to an operating loss of ¥887 million in the first half of the previous year, which was mainly due to the persistent high cost of sales for battery materials and recognition of a loss on valuation of inventories.

c. Ferrochemicals Division

Sales of reprographic carriers, used in developers for copiers and printers, were up year on year due to higher sales volumes. Sales of iron oxide were down year on year due to lower sales of colorants.

As a result of the above, net sales in the Ferrochemicals Division amounted to ¥1,184 million, up ¥339 million or 40.1% year on year. Operating profit totaled ¥192 million, surging ¥132 million or 217.7%.

d. Commercial Business Division

Commercial business sales were down year on year due to lower sales of chemical products.

As a result of the above, net sales in the Commercial Business Division amounted to ¥310 million, down ¥7 million or 2.2% year on year. Operating profit totaled ¥62 million, down ¥52 million or 45.4%.

e. Facilities Division

Net sales in chemical facility plant and general industrial plant construction were down year on year due to a decrease in contract work.

As a result of the above, net sales in the Facilities Division amounted to ¥951 million, down ¥128 million or 11.9% year on year. Operating profit totaled ¥212 million, down ¥149 million or 41.4%.

(2) Financial position

As of the end of the first half of the fiscal year ending March 31, 2025, total assets amounted to ¥121,736 million, down ¥3,566 million from the end of the previous consolidated fiscal year, mainly due to decreases in cash and deposits, and investment securities, which exceeded the increase in property, plant and equipment.

Total liabilities amounted to ¥54,227 million, down ¥5,496 million, mainly due to decreases in borrowings and other under current liabilities, despite an increase in notes and accounts payable—trade.

Net assets amounted to ¥67,508 million, up ¥1,930 million, mainly due to increases in foreign currency translation adjustment and retained earnings, which exceeded the decrease in valuation difference on available-for-sale securities. The equity ratio was 54.2%, versus 51.1% at the end of the previous fiscal year.

(3) Consolidated earnings forecasts

The consolidated earnings forecast for the fiscal year ending March 31, 2025 has been revised from the forecast announced on August 9, 2024. For details, please refer to the separately published “Notice of Difference Between Forecast and Actual Results for the First Half of the Fiscal Year Ending March 31, 2025 and Revision of Full-Year Consolidated Earnings Forecast.”

The above forecasts were created based on information available as of the date of this document’s publishing, and actual results may differ versus forecast figures due to a variety of factors arising in the future.

2. Consolidated financial statements and notes

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets:		
Current assets		
Cash and deposits	25,409	19,441
Notes and accounts receivable—trade, and contract assets	14,835	15,219
Electronically recorded monetary claims—operating	1,292	923
Merchandise and finished goods	6,943	6,595
Work in process	6,475	7,432
Raw materials and supplies	3,993	3,006
Other	4,359	3,824
Allowance for doubtful accounts	(41)	(34)
Total current assets	63,268	56,408
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,719	13,237
Machinery and equipment, net	19,767	19,558
Construction in progress	10,012	13,589
Other, net	6,543	6,461
Total property, plant and equipment	49,042	52,847
Intangible assets	752	717
Investments and other assets		
Investment securities	9,224	8,612
Retirement benefit assets	11	12
Deferred tax assets	2,093	2,321
Other	916	825
Allowance for doubtful accounts	(7)	(8)
Total investments and other assets	12,238	11,763
Total non-current assets	62,034	65,328
Total assets	125,302	121,736

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities:		
Current liabilities		
Notes and accounts payable—trade	7,287	8,175
Electronically recorded obligations—operating	1,021	1,323
Short-term borrowings	5,028	4,597
Current portion of long-term borrowings	9,022	8,725
Income taxes payable	272	637
Provision for bonuses for directors (and other officers)	60	11
Other	8,198	5,965
Total current liabilities	30,891	29,435
Non-current liabilities		
Long-term borrowings	26,872	22,791
Provision for retirement benefits for directors (and other officers)	151	150
Provision for share awards for directors (and other officers)	33	39
Retirement benefit liability	1,084	1,160
Other	691	650
Total non-current liabilities	28,832	24,791
Total liabilities	59,724	54,227
Net assets:		
Shareholders' equity		
Capital	2,877	2,877
Capital surplus	1,859	1,859
Retained earnings	52,149	53,179
Treasury shares	(66)	(62)
Total shareholders' equity	56,821	57,854
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,939	3,561
Foreign currency translation adjustment	2,402	3,726
Remeasurements of defined benefit plans	843	808
Total accumulated other comprehensive income	7,185	8,096
Non-controlling interests	1,572	1,557
Total net assets	65,578	67,508
Total liabilities and net assets	125,302	121,736

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	From April 1, 2023 to September 30, 2023	From April 1, 2024 to September 30, 2024
Net sales	34,840	31,265
Cost of sales	30,709	24,733
Gross profit	4,131	6,532
Selling, general and administrative expenses	4,560	4,811
Operating profit (loss)	(428)	1,721
Non-operating profit		
Interest income	31	18
Dividend income	152	279
Foreign exchange gains	749	442
Other	97	219
Total non-operating profit	1,030	960
Non-operating expenses		
Interest expenses	249	224
Loss on valuation of derivatives	118	—
Other	96	45
Total non-operating expenses	463	269
Ordinary profit	137	2,412
Extraordinary income		
Gain on sale of investment securities	449	—
Total extraordinary income	449	—
Extraordinary losses		
Loss on retirement of non-current assets	118	65
Environmental expenses	—	300
Total extraordinary losses	118	365
Profit before income taxes	468	2,047
Income taxes payable	106	533
Profit	362	1,513
Profit attributable to owners of parent	104	81
Profit attributable to owners of parent	257	1,432

Consolidated statement of comprehensive income

(Millions of yen)

	From April 1, 2023 to September 30, 2023	From April 1, 2024 to September 30, 2024
Profit	362	1,513
Other comprehensive income		
Valuation difference on available-for-sale securities	866	(454)
Foreign currency translation adjustment	856	1,334
Remeasurements of defined benefit plans	(8)	(34)
Total other comprehensive income	1,715	845
Comprehensive income	2,077	2,359
Comprehensive income attributable to:		
Owners of parent	1,902	2,343
Non-controlling interests	174	15

(3) Consolidated statement of cash flows

(Millions of yen)

	From April 1, 2023 to September 30, 2023	From April 1, 2024 to September 30, 2024
Cash flows from operating activities		
Profit before income taxes	468	2,047
Depreciation	4,061	4,042
Interest and dividend income	(183)	(298)
Interest expenses	249	224
Foreign exchange losses (gains)	(614)	(1,008)
Loss on retirement of non-current assets	118	65
Loss (gain) on sale of investment securities	(449)	—
Decrease (increase) in trade receivables	4,420	72
Decrease (increase) in inventories	3,120	636
Increase (decrease) in trade payables	(798)	912
Decrease (increase) in other current assets	1,904	98
Increase (decrease) in other current liabilities	(1,558)	242
Other	(352)	60
Subtotal	10,386	7,095
Interest and dividends received	189	295
Interest paid	(213)	(228)
Income taxes paid	(2,243)	409
Net cash provided by operating activities	8,118	7,572
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,322)	(8,871)
Proceeds from sale of investment securities	541	—
Purchase of investment securities	(11)	(12)
Other	(94)	26
Net cash used in investing activities	(4,886)	(8,858)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	123	(425)
Repayments of long-term borrowings	(3,420)	(4,524)
Dividends paid	(1,323)	(402)
Dividends paid to non-controlling interests	(26)	(30)
Other	(108)	(83)
Net cash used in financing activities	(4,755)	(5,467)
Effect of exchange rate change on cash and cash equivalents	687	778
Net increase (decrease) in cash and cash equivalents	(835)	(5,974)
Cash and cash equivalents at beginning of period	21,987	25,225
Cash and cash equivalents at end of period	21,151	19,250

(4) Notes to the consolidated financial statements

(Notes on premise of going concern)

Not applicable.

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

Not applicable.

(Special accounting for preparing the consolidated financial statements)

Tax expenses are calculated by multiplying profit before income taxes by the reasonably estimated effective tax rate after the application of tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2025, including the first half. However, in cases where calculating tax expenses using the estimated effective tax rate would significantly lack rationality, tax expenses are calculated using the statutory effective tax rate.

(Segment information)

I. From April 1, 2023 to September 30, 2023

1. Information on net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded on the statement of income (Note 2)
	Fundamental Chemicals	Fine Chemicals	Ferrochemicals	Commercial Business	Facilities	Total		
Net sales								
(1) Net sales to external customers	4,393	28,203	845	317	1,080	34,840	—	34,840
(2) Inter-segment net sales or transfers	—	—	0	847	2,056	2,904	(2,904)	—
Total	4,393	28,203	845	1,165	3,137	37,745	(2,904)	34,840
Segment profit (loss)	(3)	(887)	60	115	362	(352)	(76)	(428)

(Notes) 1. The segment loss adjustment of ¥76 million is elimination of inter-segment transactions.

2. Segment profit (loss) is adjusted with operating loss in the consolidated statement of income.

2. Information about impairment loss and goodwill on non-current assets by reportable segment

Not applicable.

II. From April 1, 2024 to September 30, 2024

1. Information on net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded on the statement of income (Note 2)
	Fundamental Chemicals	Fine Chemicals	Ferrochemicals	Commercial Business	Facilities	Total		
Net sales								
(1) Net sales to external customers	3,961	24,857	1,184	310	951	31,265	—	31,265
(2) Inter-segment net sales or transfers	—	—	0	584	1,346	1,931	(1,931)	—
Total	3,961	24,857	1,184	895	2,298	33,196	(1,931)	31,265
Segment profit (loss)	(525)	1,825	192	62	212	1,768	(47)	1,721

(Notes) 1. The segment loss adjustment of ¥47 million is elimination of inter-segment transactions.

2. Segment profit (loss) is adjusted with operating profit in the consolidated statement of income.

2. Information about impairment loss and goodwill on non-current assets by reportable segment

Not applicable.