

MARGIN OF SAFETY

BALANCE OF POWER

MANAGEMENT ANALYSIS



ACHIEVING 1.0X PBR EARLY

NOVEMBER 2022

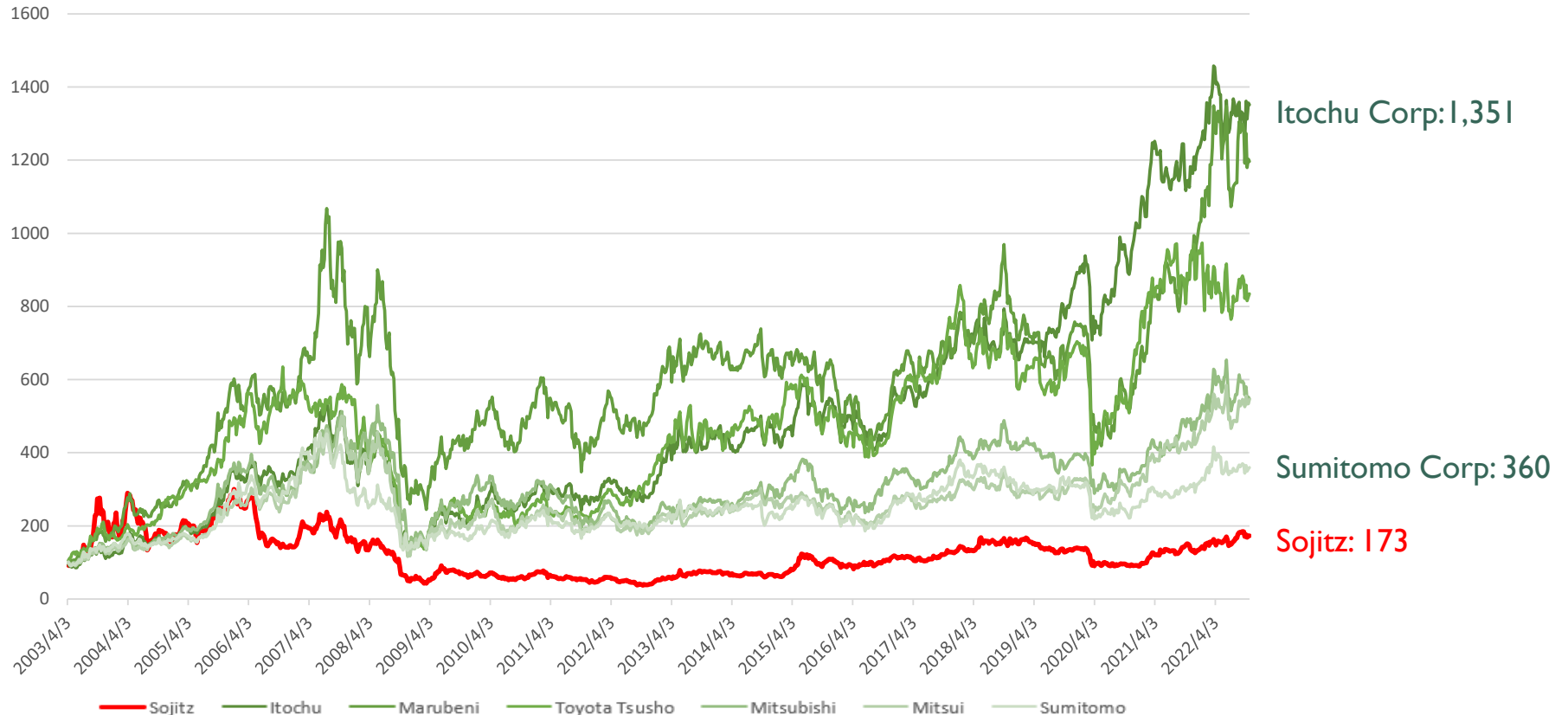


CLEAR DIFFERENCE IN STOCK PRICE PERFORMANCE AMONG PEERS



- Sojitz's stock price performance has been lacklustre amongst general trading companies with only 1.7x since inception.
- Investing the same amount in Itochu Corp and Sumitomo Corp would have reaped 13.5x and 3.6x respectively

Stock price performance since the inauguration of Nichimen/Nissho Iwai HD (April 2003)

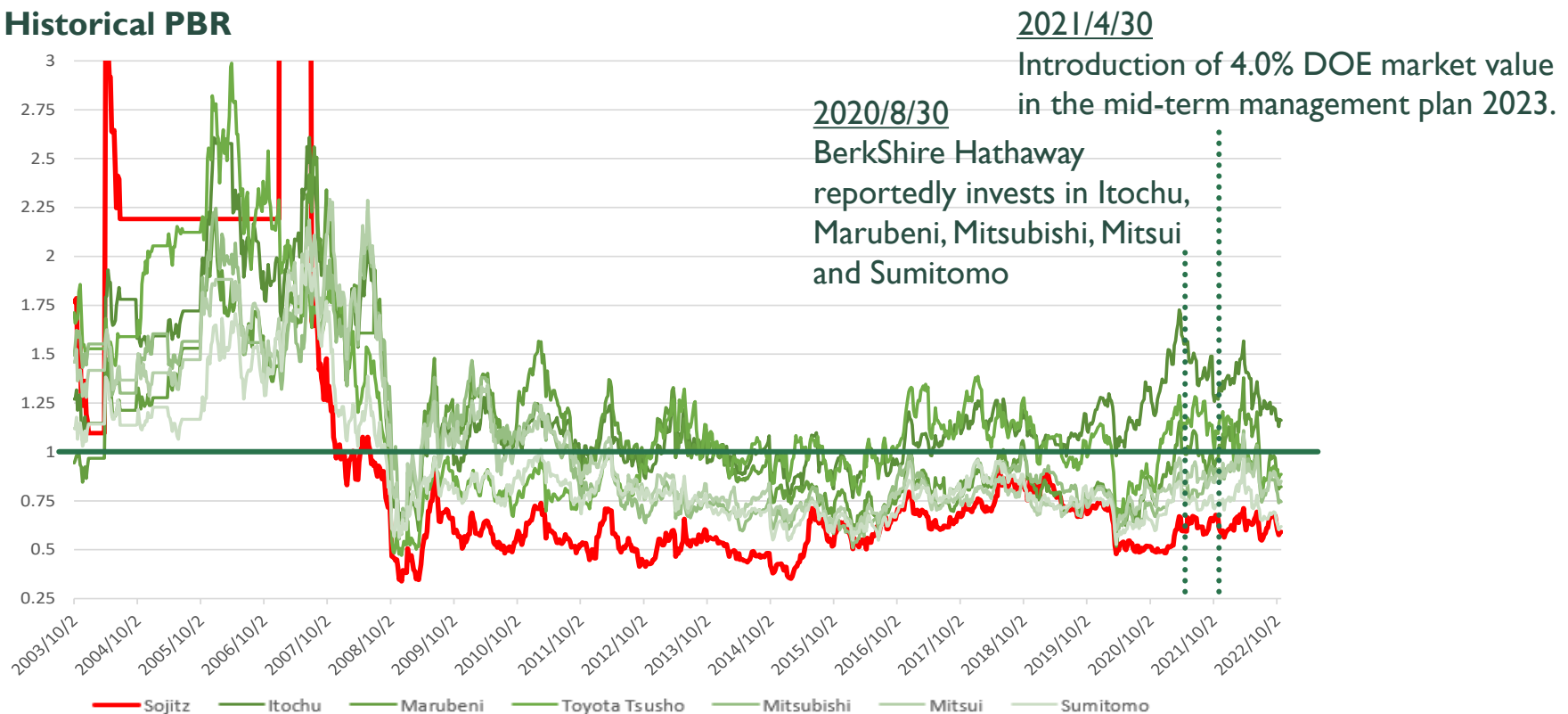


A LONG WAY TILL 1.0X PBR



- General trading companies, not only Sojitz are known for low PBR, with many of them trading below book value, except for Itochu which has a business portfolio less dependent on natural resources
- Sojitz is committed to introducing a market value DOE of 4% and reaching a P/B ratio of 1.0x. It has shown significant progress but is yet halfway there

Long-term Historical PBR



MARKET VALUE DOE IS THE DIVIDEND YIELD ITSELF



- While the commitment to DOE is a reassuring factor that attracts long-term investors, the company is only committed to a market value DOE of 4% i.e., a dividend yield of 4% as long as the P/B ratio is below 1.0x which is an unsatisfactory level based on past dividend yields and is no surprise for most investors.

Company's explanation

Lower Limit for Dividends

Dividend payments when year-end PBR is under 1.0 times

- Market price-based DOE of 4%
- Calculated based on the annual average of stock closing prices
- ➔ Approach resulting in dividend yield of 4%

Market price-based DOE = Total dividends paid ÷ (Average closing share price for fiscal year × Total shares issued at year-end)

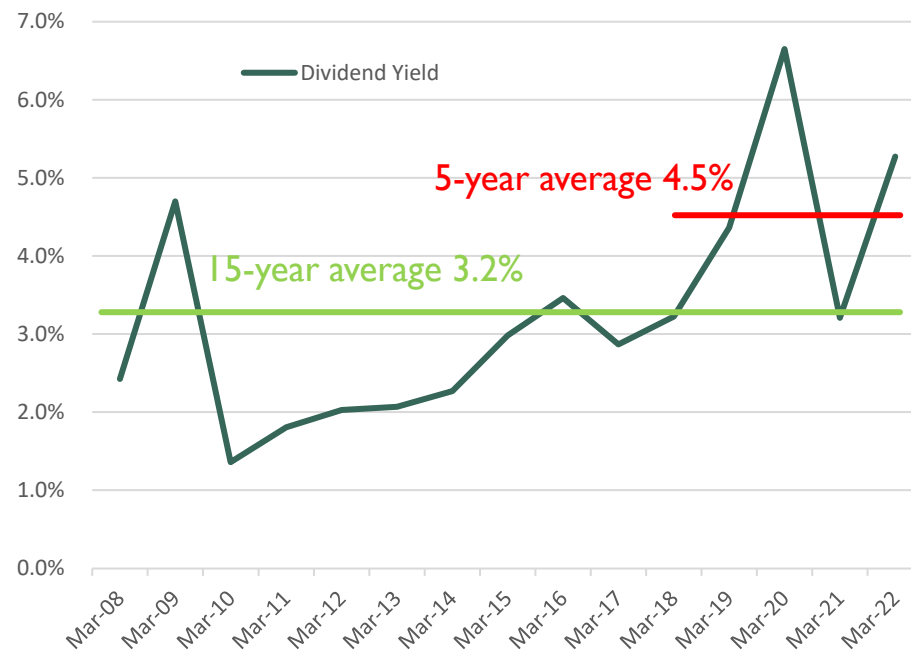
Dividend payments when year-end PBR is above 1.0 times

- Book value-based DOE of 4%
- ➔ Return 50% of approx. 8% shareholders' equity costs

Book value-based DOE = Total dividends paid ÷ Shareholders' equity at year-end (book value)

Note: The decision of whether to apply market price-based DOE or book value-based DOE will be determined based on PBR on March 31, 2022.

Changes in Dividend Yield

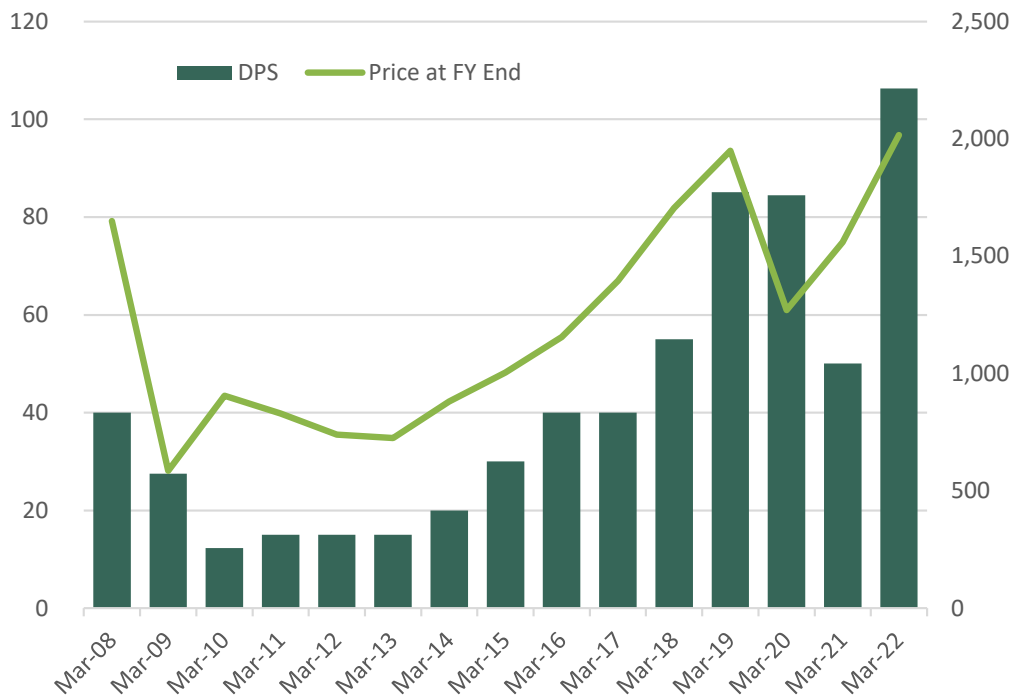


SEEMS TO BE EVALUATED BY DIVIDEND YIELD



- The trend in Sojitz's share price indicates a clear relationship with dividends, being a so-called “dividend stock”
- The lower limit is supported by a commitment to a market value DOE = 4% Dividend Yield. Although it could be said that Sojitz has succeeded in attracting investor's attention to the dividend forecast, it is difficult to see the upside.

Trends in DPS and FY End share price



Theoretical stock price calculated with expected DPS and dividend yield

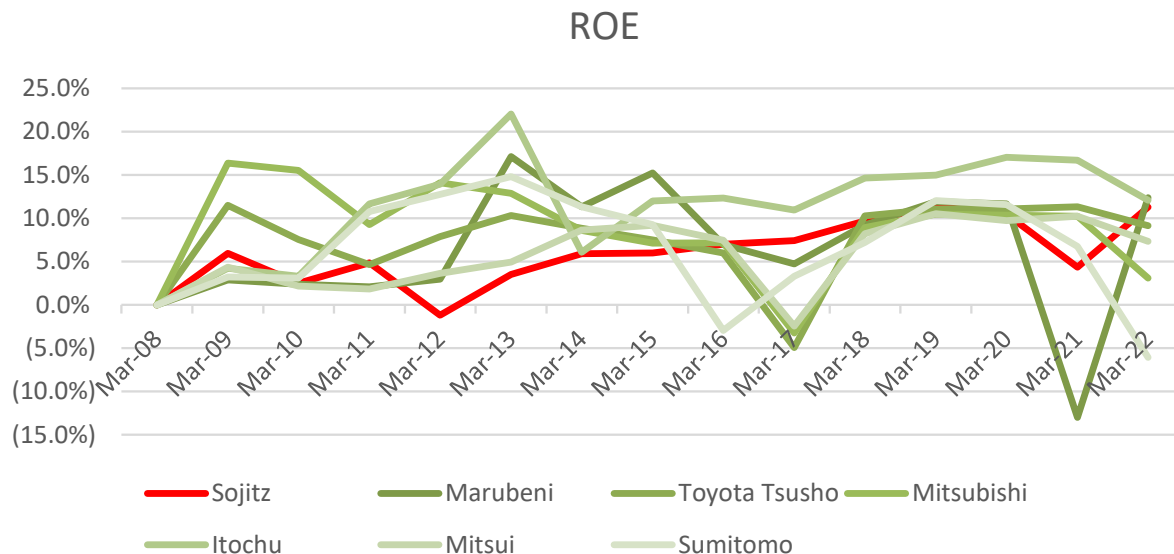
Dividend Yield	4.0%	
	DPS	Share price
	90	2,250
	100	2,500
	110	2,750
	120	3,000
	130	3,250
	140	3,500
	150	3,750
	160	4,000
	170	4,250
	180	4,500

PBR AND ROE

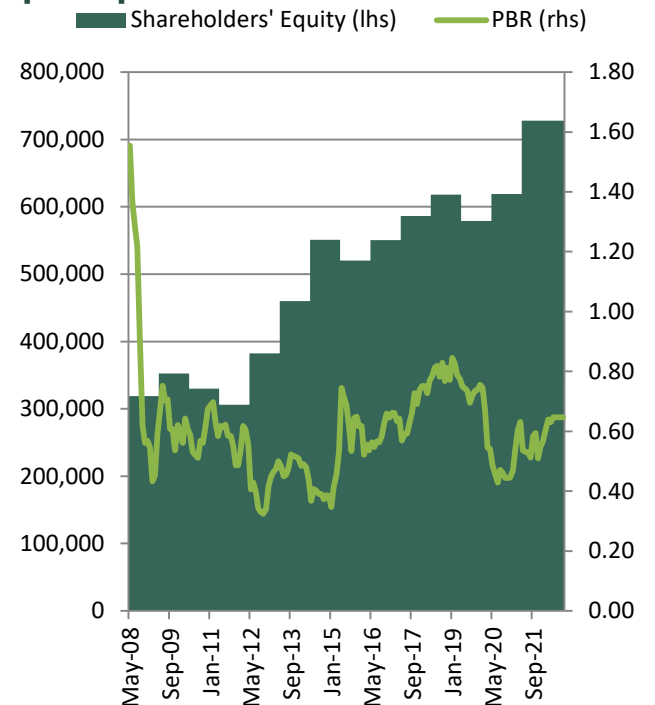


- It is widely known that there is a correlation between ROE and PBR, however, Sojitz's ROE exceeds 8%, by no means low, and which is an important baseline for valuations of Japanese equities.
- Moreover, it is characterised by lower volatility than other trading companies and is continually growing thanks to constant efforts. Despite this, the valuations remaining at an all-time low is likely due to the piled-up shareholders' equity.

Sojitz's ROE is consistent, showing low volatility and has been growing steadily over a long period of time



PBR declines as capital continues to pile up



SIMULATION: BOOK VALUE DOE IMPLEMENTATION



- A simple simulation conducted based on Sojitz's materials from disclosures and presentations shows that there is sufficient margin to change the dividend policy to a constant book value DOE of 4% before P/B ratio reaching 1.0x.
- Investments and their returns in non-natural resource areas are strongly affected by market conditions in the natural resources, giving the impression that the average ROE will consistently decline.

	2022/3期	2023/3期	2024/3期	2025/3期	2026/3期	2027/3期
Index						
ROE	12.2%	14.4%	12.0%	9.1%	8.7%	8.3%
EPS	356.7	480.7	444.8	359.0	362.3	365.6
BPS	3,153.9	3,512.9	3,832.6	4,048.9	4,261.8	4,471.4
DPS	106.3	127.3	143.0	154.7	163.4	172.0
Payout Ratio	29.8%	26.5%	32.2%	43.1%	45.1%	47.1%
Total return ratio		31.0%	42.2%	49.3%	51.4%	53.3%
Book Value DOE	3.4%	4.00%	4.00%	4.00%	4.00%	4.00%
Market Value DOE		5.1%	5.7%	6.2%	6.5%	6.9%
Dividend Yield	5.3%	5.1%	5.7%	6.2%	6.5%	6.9%
Net D/E	1.07x	0.88x	0.81x	0.77x	0.74x	0.72x

Note: Very simple simulation assuming net income of 110 billion yen, 100 billion yen, and 80 billion yen in that order for the period from 2023/3 to 2027/3, FCF/net income of 50%, interest-bearing debt of 1 trillion yen, and a constant share price of 2,500.

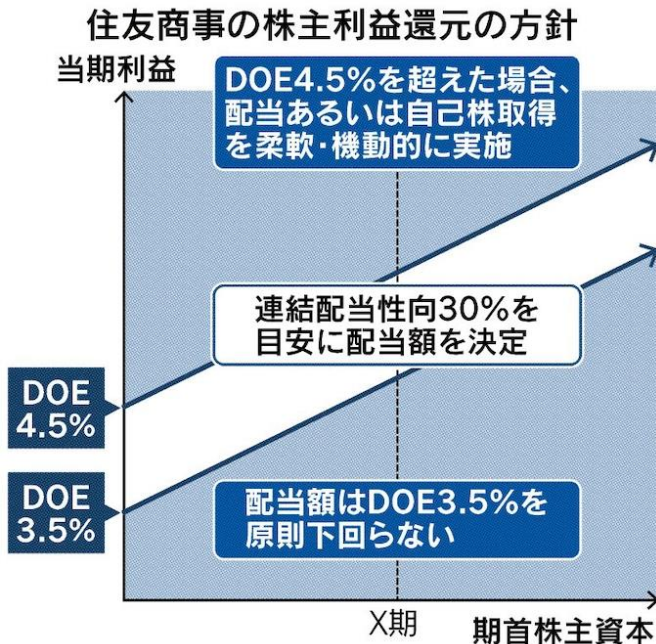
CASE STUDY OF INTRODUCING DOE



- Most recently in August 2022, Sumitomo Corporation announced its commitment to book value DOE.
- Many companies outside of the trading sector whose profits fluctuate with market conditions, have introduced this system in order to win over long-term investors.

Sumitomo Corporation

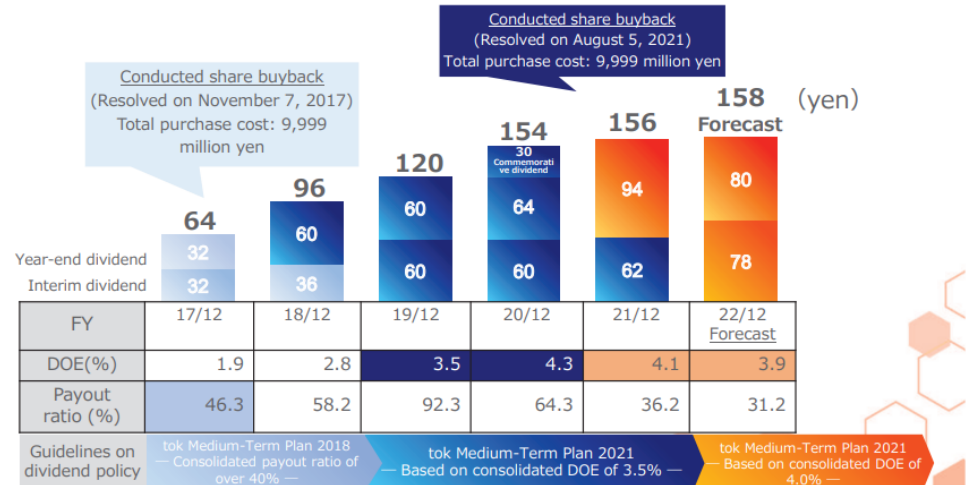
Tokyo Ohka Kogyo (Semiconductor photoresist manufacturer)



Build sound and efficient management foundation ²⁷

<Trends in Shareholder Returns and Dividends>

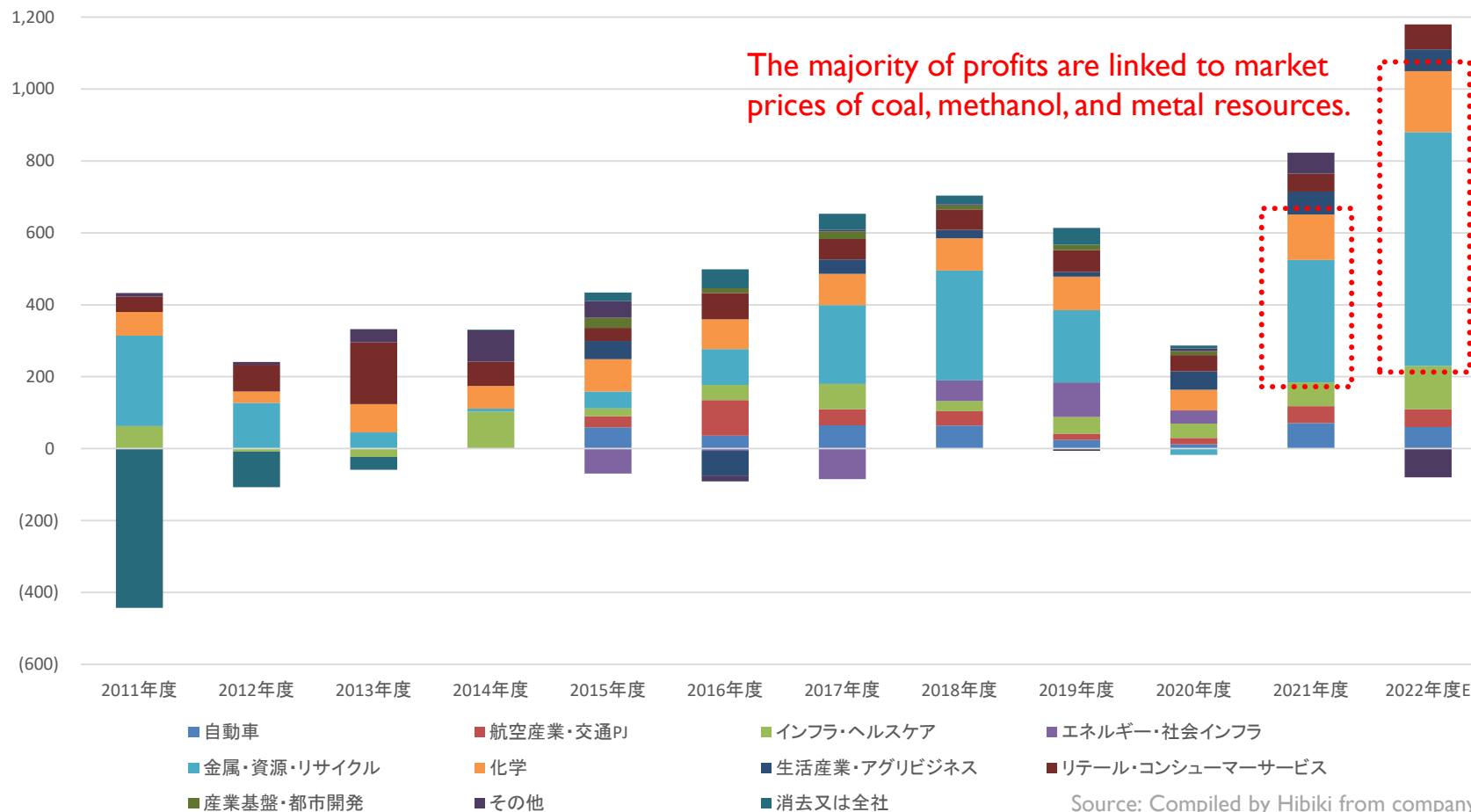
- Updated the dividend policy with the objective of steadily and continuously returning profits to shareholders ⇒ New dividend policy: Aim for **DOE of around 4.0%** (from FY21/12)
- Flexibly conduct** share buyback as a means of returning profits to shareholders



TAILWIND BUT STILL A NATURAL RESOURCE DEPENDENT

- Although Sojitz is aware of the significant challenge in accumulating assets in non-resource areas and increasing the speed to monetisation, the profit structure is still highly market-driven. As a result, the market's view of the company remains unchanged.

Net income



RETURNS ON NON-NATURAL RESOURCE INITIATIVES...?



- Jalux, Royal HD, Vietnam paper business, rental housing management JV with Goldman Sachs...etc. Progress is being made in non-natural resource investments, but it is still difficult to estimate how much is the return on investment and when it can be realised
- Are you able to illustrate how your investments generate returns even if it is just in a simple image?

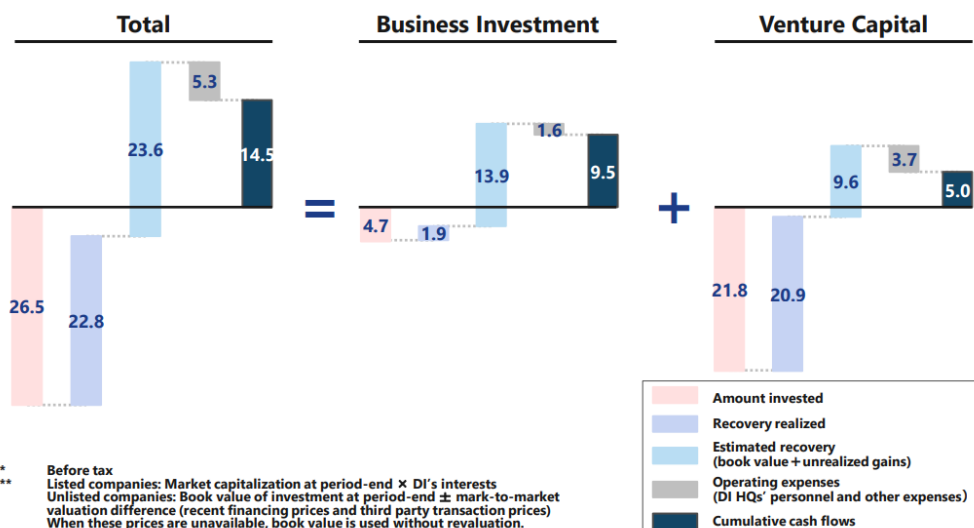
Dream Incubator (4310) Case Study

Incubation business performance

Reference

Cumulative cash flows* from FY03/2000 to FY03/2022 (including amount of estimated recovery)

(JPYbn)



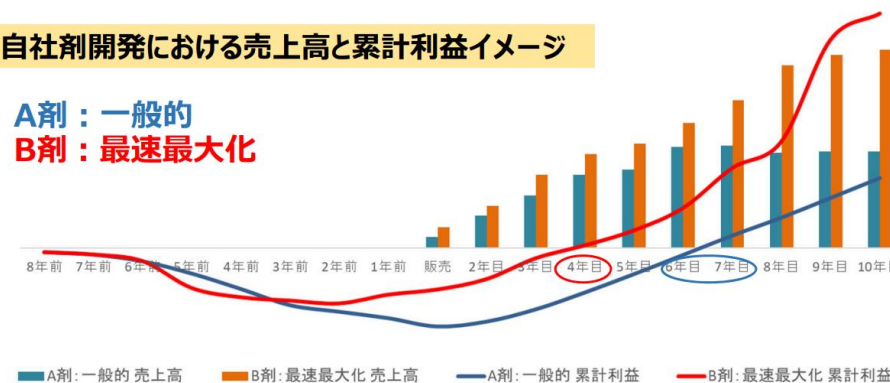
* Before tax
 ** Listed companies: Market capitalization at period-end × DI's interests
 Unlisted companies: Book value of investment at period-end ± mark-to-market valuation difference (recent financing prices and third party transaction prices)
 When these prices are unavailable, book value is used without revaluation.

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Nihon Nohyaku (4997) Case Study

自社剤開発における売上高と累計利益イメージ

A剤：一般的
 B剤：最速最大化

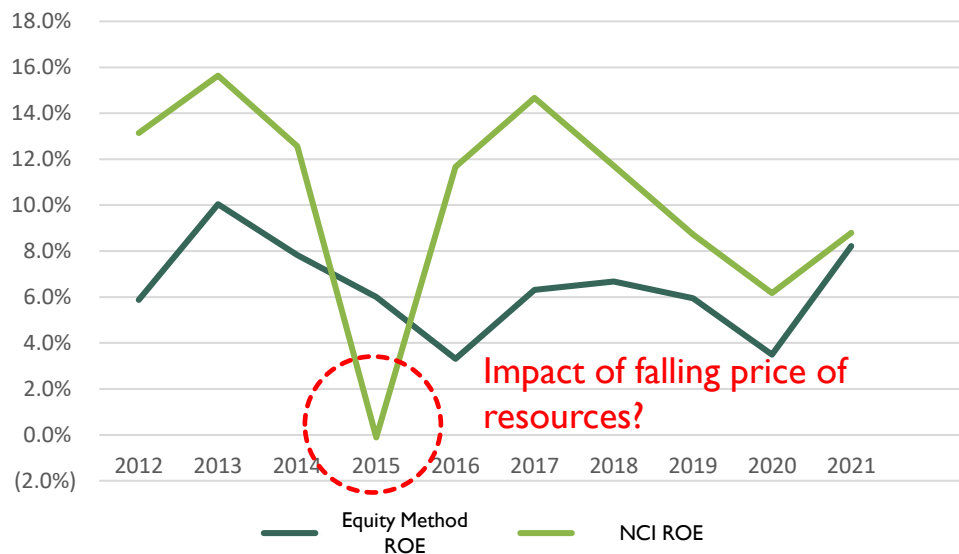


GOVERNANCE OF SUBSIDIARIES

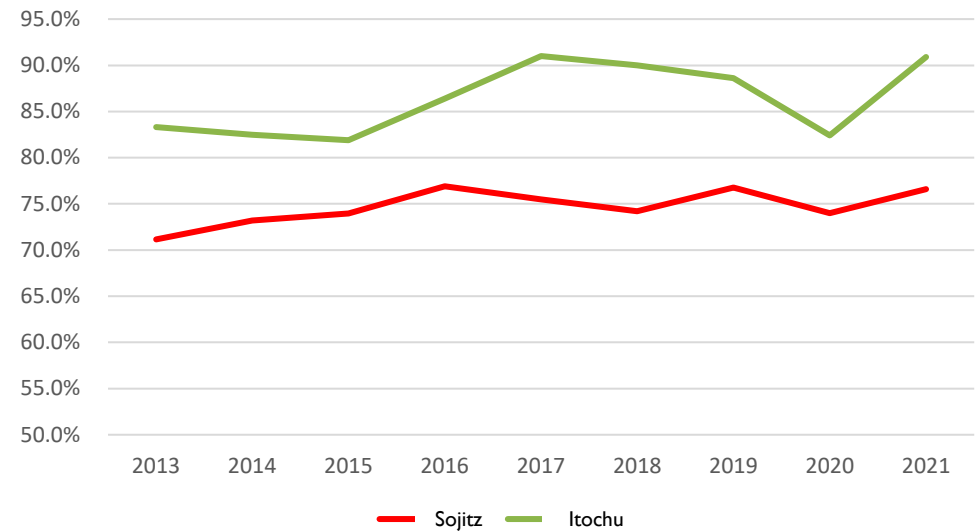


- In regard to Sojitz, comparing the ROE of equity method investments against the ROE of non-controlling interest, the ROE of non-controlling interest has been higher in many periods but has since narrowed in recent years ⇒ High ROE is a sign that you are able to invest your equity well and/or successful management.
- The ratio of profitable companies is not rising noticeably, clear gap with Itochu ⇒ How important is it as an internal KPI?

Sojitz subsidiaries' ROE



Comparison of profitable companies



CAN IR BE THE STAR ?



- We want IR to be positioned at a level in the company where it can be considered a “gateway to success”
- By interacting with a variety of investors, you will gain a multifaceted view of the perception and positioning of a company, and realise the importance of brand recognition, which not only affects from a financial perspective but also everything from recruitment to business development and acquire the habit of focusing on the pillar of corporate value enhancement from a holistic viewpoint.

The CEO of Mitsui was the former head of the IR

Self-promotion of corporate branding projects



Representative Director, President and Chief Executive Officer

Kenichi Hori



1984年4月	当社入社
2009年10月	当社商品市場部長
2010年7月	当社IR部長

社員一人ひとりがメディア
三井物産ブランド・プロジェクト

DISCLAIMER



Hibiki Path Advisors Pte. Ltd.

Tel: +65 6931 3914

Email: info@hibiki-path-advisors.com

Website: www.hibiki-path-advisors.com

Address: 39 Temple Street, #02-01 Singapore (058584)

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