Record of Telephone Conference Concerning Q1 FY2020 Results

Reference: FY2020 Q1 Results & FY2020 Q1-Q2 Forecast
https://www.mitsui-kinzoku.com/LinkClick.aspx?fileticket=Jo%2fnwnQvkgw%3d&tabid=227&mid=1027

Note:
PKG = Package substrate
HDI = High density interconnect

Engineered Materials Segment

Q.
(Referring to page 10 of the FY2020 Q1 Results & FY2020 H1 Forecast) The data for MicroThin™ indicates a rise in volume of sales across Q1 and Q2. Please give a breakdown for the PKG-related and HDI-related sales.

A.
Regarding sales to PKG companies, in Q1, we saw brisk sales for 5G applications—smartphone and non-smartphone. This seems to have fizzled out somewhat, but orders should remain at a high level in Q2. As for the HDI market, we forecasted that volume of sales will rise across H1 because a North American smartphone maker's 2020 model will enter production in this quarter.

Q.
In the HDI market, have you seen any new uptake among customers or any other developments? Does the North American smartphone maker still plan to use a larger motherboard?

A.
There are no such developments as yet in the HDI area.
The smartphone maker still plans to use a larger motherboard. This might lead to a higher volume of sales, but we cannot say for sure until we see the final product.

Q.
(Referring to page 10 of the FY2020 Q1 Results & FY2020 H1 Forecast) Your Q2 forecast for PKG-related MicroThin™ sales is 92, a decrease from the Q1 result of 103. Is this forecast a conservative figure?

A.
There are no sure signs that demand among PKG companies has fallen from the Q1 level. That said, the figure for Q1 (103) might have been boosted by customers stocking up, given how much higher it was than the figures for Q3 and Q4 last year (87 and 85). We reckoned that business would ease off slightly in Q2. In this respect, the forecast is not conservative.

Q.
MicroThin™ sales to PKG companies are trending upward. Please describe the growth prospects for smartphone and non-smartphone applications.

A.
We expect to see solid growth in both smartphone and non-smartphone applications. For smartphone applications, the amount of MicroThin™ used per smartphone should increase as smartphones grow more sophisticated. For non-smartphone applications, sales will grow as investment increases in the 5G area, especially in server memory.

Q.
(Referring to page 10 of the FY2020 Q1 Results & FY2020 H1 Forecast) The H1 forecast for copper foil has been downgraded. Please describe the demand trends for communications infrastructure and FPCs.

A.
Generally speaking, demand in FY2020 Q1 was better than it was in FY2019 Q4. The volume of sales was nonetheless lower than the Q4 figure because our Malaysian plant suspended operations from late March to the end of April due to COVID-related restrictions. Demand has since eased somewhat, but with normal operations set to resume, the volume of sales in Q2 should still be higher than it was in Q1.
Regarding communications infrastructure, sales volume should continue to increase in Q2, but not as much as we initially assumed. As for FPCs, sales volume declined in Q1 due to the suspension of production in Malaysia. Although the volume should pick up in this quarter, it was still necessary to downwardly revise the forecast.

Q.
(Referring to page 10 of the FY2020 Q1 Results & FY2020 H1 Forecast) You have upwardly revised the H1 forecasts for MH alloys and 2W catalysts. Please explain why.

A.
We upgraded the forecast for MH alloys because clients reduced production for a shorter period than expected, suggesting that the volume of sales will exceed initial expectations. We upgraded the forecast for catalysts for 2-wheelers because sales in India are expected to surge in Q2. The surge occurred because people were avoiding public transport amid COVID-19.

Q.
Since the second half of FY2019, it has been hard to ascertain the profitability of your catalyst business due to fluctuations in precious metal prices and increases in volume of sales. In Q1, what changes occurred in sales volume and precious metal prices?

A.
While the engineered materials segment posted an ordinary income of 3.8 billion yen in Q1, its ordinary income for Q2 is forecasted at 1.4 billion yen. The downturn is due to precious metal price trends. In Q1, favorable price trends boosted the segment's ordinary income by 500 million yen; but in Q2, less favorable trends will likely reduce ordinary income by 1.9 billion yen. Volume of sales in Q2 is forecasted higher than the Q1 level. The main reason is that while a key production center in India reduced production in Q1 due to COVID-19, it then ramped up production in Q2 amid an upturn in demand for catalysts for 2-wheelers. Despite the rise in catalyst sales in Q2, we expect a sizeable decrease in income due to precious metal price trends.

Q.
Even if you discount the 1.9 billion yen lost due to precious metal price trends, the engineered materials segment's ordinary income for Q2 would, at 3.3 billion yen, still fall short of the Q1 figure of 3.8 billion yen. Please describe the reasons for this decrease, including the changes in each main product line.
A.
The quarter-on-quarter decrease was partly due to the reduced demand for metal powders among electronic materials companies, but around 600 million yen of the decrease was attributable to a higher R&D spend. The copper foil business is unlikely to see a significant increase in income. Although we do expect higher sales of electro-deposited copper foil and MicroThin™, these will be offset by added costs such as the higher energy bills in summer.

Metals Segment

Q.

(Referring to page 15 of the FY2020 Q1 Results & FY2020 H1 Forecast) Please describe the operating rate of the Huanzala mine in Q2 and how this compares to its usual rate. As for the Caserones copper mine, is the reduced operating rate only due to COVID-19, or are there other factors? Also, what is the outlook for the mine?

A.

The Huanzala mine resumed operation in July, as expected. That said, due to ongoing COVID-19 measures, the mine operates at only 70–80% of its usual operating rate. As for the Caserones copper mine, the reduced operating rate is due to COVID-19; no other factors are involved. For now, we are working to resume normal operations at the mine.

Automotive Parts & Components Segment

Q.

You have forecasted a reduction in the level of debt in the automotive parts & components. How much of this reduction is due to increased sales and how much to lower sales costs? Also, will the effects of lower sales costs persist into the second half?

A.

Please note that our initial forecasts for H1 were speculative and imprecise, relying on broad assumptions such as a 50% fall in Q1. Once we knew the actual impact of cost reduction in Q1, we revised the H1 forecast to reflect this data.

General Performance

Q.

I have a question about how your initial H1 forecasts factored in the effects of COVID-19. These forecasts assumed that sales would decrease by 70 billion yen, and that ordinary income would decrease by 20 billion yen, with 7 billion yen saved due to cost-optimization efforts. When you revised the forecasts, to what extent did you expect the reduced revenue and cost-optimization efforts to occur in H1?

A.

Initially, we reckoned that reduced takings would cut overall income by 27 billion yen, and that optimization efforts would yield 7 billion yen. We had assumed that low metal prices would be a factor behind the reduced takings. However, by the time of the revision, metal prices were trending more favorably. As for our optimization efforts, these efforts produced the expected savings in energy costs. Additionally, the Q1 data reveals that we managed to improve sales costs for automotive parts & components. Despite the improvements, the outlook remains unclear, so the full-year forecasts remain unchanged.

Q.

So your optimization efforts had proceeded well, yielding 7 billion yen as of the H1 forecast; and of the factors behind the 27 billion yen in loss, you downgraded the metal price factor, as the metal price market was trending more favorably. That being the case, you will presumably further downgrade the metal price factor for your full-year forecasts. Is that so?

A.

As of the close of Q1, that is indeed the case. Metal prices are trending somewhat more favorably than we had anticipated.