

ITOCHU Enex Co., Ltd

8133

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Summary

Itochu Enex Co., Ltd. <8133> (hereafter, also “the Company”) is an energy trade company that is playing a pivotal role in the energy field for the ITOCHU Corp. <8001> group. It has a broad business scope, though mainly sells petroleum products and liquefied petroleum (LP; propane) gas to users ranging from industrial businesses to final consumers.

1. Posted all-time high results on a quarterly basis in 3Q FY3/17

Profit from operating activities increased sharply to ¥13,621mn (up 18.2% YoY) in 3Q FY3/17. Gross profit, profit from operating activities, and net profit attributable to Itochu Enex’s shareholders reached new all-time highs on a quarterly basis. The Power & Utility Division and other divisions steadily expanded earnings, just as through 2Q. While consumption of petroleum products in Japan is shrinking, the switch to an upward trend in crude oil prices had a favorable impact.

2. Likely to exceed goals for FY3/17, the final year of the current medium-term business plan

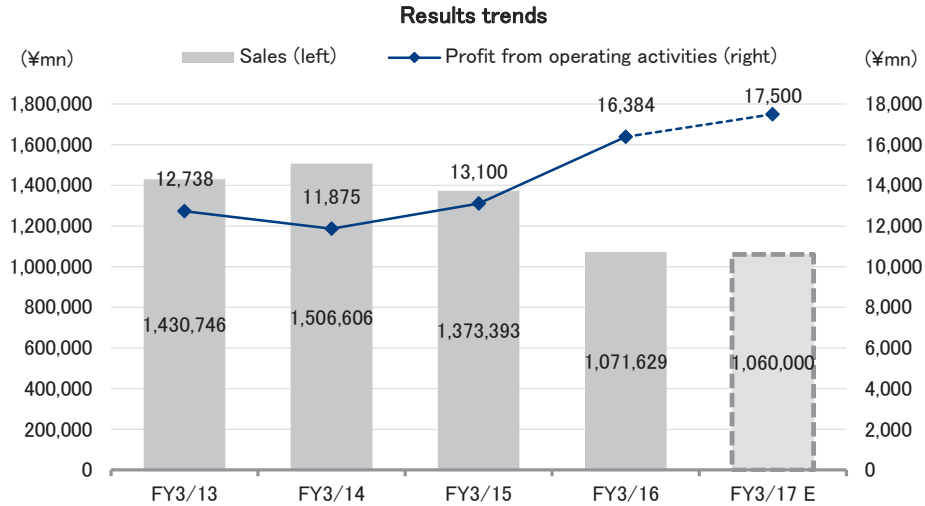
Itochu Enex appears to be capable of beating the FY3/17 outlook in light of upbeat progress through 3Q. Key positives in 4Q are healthy demand periods for the various businesses of the Company and support from external conditions with rising LP gas and crude oil prices and stable forex rates. This fiscal year is the final year of the current medium-term business plan, and Itochu Enex should fulfill the goals.

3. Focus on new growth strategies presented in the next medium-term plan

The next medium-term business plan starting from FY3/18 will define the direction of longer-term growth strategies, and it will be officially announced in May 2017. In a reorganization taking effect from April 2017, Itochu Enex plans to rename and revamp the Distribution & Energy Innovation Business Group, which covers the Car-Life Division and Energy Innovation Division, into the Life Energy & Logistics Division and Industrial Energy & Logistics Division. It is likely to present growth strategies that are organically linked to this reorganization in order to accelerate growth.

Key Points

- Posted upbeat 3Q FY3/17 results with profit from operating activities at close to 80% of the full-year target
- Likely to exceed full-year targets thanks to favorable external conditions in 4Q, the strong demand period
- Scheduled to announce the next medium-term business plan in May 2017, focus on advancement and evolution of initiatives from the current medium-term plan



Source: Prepared by FISCO from the Company's financial results

■ Business Overview

Developing operations to meet customer needs with businesses that range from consumer energy to industrial energy and electricity

Itochu Enex was a major presence in the petroleum products distribution industry as Itochu Fuel Corporation prior to adopting its current name in 2001. It significantly revamped the business structural too during the 2000s with a theme of transitioning from a “fuel trading company” to a “new form of energy company.” It has been shifting the business model from mainly B-to-B in past years to B-to-C.

Itochu Enex currently has an organization with two business groups and four business divisions. The business divisions are the Home-Life Division, the Car-Life Division, the Power & Utility Division, and the Energy Innovation Division. The Home-Life Division and Power & Utility Division come under the Power & Gas Business Group, and the Car-Life Division and Energy Innovation Division form the Distribution & Energy Innovation Business Group. Itochu Enex is pursuing efforts to integrate strategy development and accelerate business initiatives. Overview of the various business divisions are reviewed below.

Business Overview

1. Home-Life Division

While the Home-Life Division sells LP gas, supplies city gas, sells industrial gas, operates auto stations for taxis (using LP gas as fuel), and sells solar power systems and other next-generation energy systems, its core business is selling LP gas. Itochu Enex sells LP gas to about 350,000 households through sales subsidiaries and also sells on a wholesale basis to about 730,000 households via roughly 1,900 distributors nationwide. A key characteristic of this business is that the fuel cost adjustment program keeps the spread between the sales prices and raw material price (contract price; CP), which corresponds to the company's margin, at a certain level. This means that securing sales volume is important for earnings.

2. Power & Utility Division

The Power & Utility Division handles the electricity business and heat supply business. The electricity business procures electricity from self-generated power using group power facilities and external purchases from partner companies and Japan Electric Power Exchange (JEPX) and conducts retail sales to contract customers in the high-voltage segment (large-volume customers such as plants and offices) and low-voltage segment (small-volume customers such as ordinary households and smaller retailers). It also sells electricity on a wholesale basis through JEPX. Subsidiary Tokyo Toshi Service Company (TTS) runs the heat supply business. It supplies heat utilizing electric heat supply centers located at large buildings and redevelopment areas at 18 sites in the Tokyo metropolitan area.

3. Car-Life Division

The Car-Life Division consists of car-life station (CS; gas stations) operations and car dealer business. In CS operations, Itochu Enex is unable to avoid an overall trend of steady decline in the number of gas stations nationwide and hence has been broadening CS business scope to car rentals and used car sales, and is focused on increasing profitability of its car-life stations. The car dealer business started in May 2014 with the acquisition of Osaka Car-Life Group Inc. (OCG). Nissan Osaka Sales Co., Ltd. is under OCG, and is the only official Nissan dealer covering Osaka prefecture (and the Hyogo Prefecture Hanshin area) and a top-class nationwide dealership network.

4. Energy Innovation Division

The Energy Innovation Division is an aggregate of industrial businesses. Specifically, it covers sales of asphalt, bunker fuel oil, AdBlue (an additive for diesel engines in trucks and other equipment), and industrial fuel (heavy oil). While this division also faces a difficult business environment of structural decline in domestic petroleum product demand, Itochu Enex is actively developing new businesses that leverage strengths from existing businesses and focusing on profitability enhancement with a slogan of "portfolio management." In recent years, it has launched a fly ash business (reuse of coal ash) and slop business (reuse of cleaning oil waste recovered from ships) and is diversifying products, such as corporate electricity sales.

Business Performance

Posted upbeat 3Q FY3/17 results with profit from operating activities at close to 80% of the full-year target

1. Review of 3Q FY3/17 results

Itochu Enex reported cumulative 3Q FY3/17 results with ¥730,108mn in sales (down 12.0% YoY), ¥491,905mn in revenue (down 11.5%), ¥13,621mn in operating profit (up 18.2%), ¥13,062mn in profit before tax (up 21.3%), and ¥6,912mn in net profit attributable to Itochu Enex's shareholders (up 19.3%). Additionally, 3Q gross profit, profit from operating activities, and net profit values reached all-time highs for the quarterly level.

Progress rates toward FY3/17 forecast are 68.9% in sales, 77.8% in profit from operating activities, and 76.8% in profit before tax. These levels exceeded progress in the previous year, confirming upbeat momentum. The results cannot be compared to cumulative 3Q targets because Itochu Enex only supplies a full-year forecast, but we think they outpaced the internal plan considering the strong progress rates.

Review of 3Q FY3/17 Results

| | FY3/16 | | FY3/17 | | | | |
|---|-----------------|-----------|-----------------|--------|---------------|----------------------|-------|
| | 3Q (cumulative) | Full year | 3Q (cumulative) | YoY | Progress rate | Full year (forecast) | YoY |
| Sales | 829,925 | 1,071,629 | 730,108 | -12.0% | 68.9% | 1,060,000 | -1.1% |
| Revenue | 555,791 | 723,645 | 491,905 | -11.5% | - | - | - |
| Gross profit | 65,334 | 89,562 | 67,839 | 3.8% | - | - | - |
| SG&A expenses | 54,063 | 73,226 | 54,122 | 0.1% | - | - | - |
| Profit from operating activities | 11,520 | 16,384 | 13,621 | 18.2% | 77.8% | 17,500 | 6.8% |
| Profit before tax | 10,773 | 15,004 | 13,062 | 21.3% | 76.8% | 17,000 | 13.3% |
| Net profit attributable to Itochu Enex's shareholders | 5,791 | 7,469 | 6,912 | 19.3% | 69.1% | 10,000 | 33.9% |

Source: Prepared by FISCO from the Company's financial results

In profit from operating activities, the Power & Utility Division exhibited the strongest progress at 130.0% and the Car-Life Division and Energy Innovation Division were healthy too at 77.4% and 65.0% fulfillment levels. While the Home-Life Division was only at 30.6%, earnings are clearly improving in this segment too because it posted higher profits than in the previous year and net profit attributable to Itochu Enex's shareholders, which reflects income from associates accounted for by the equity method, was up 202.0% YoY.

Business Performance

Breakdown of 3Q FY3/17 results by business segment

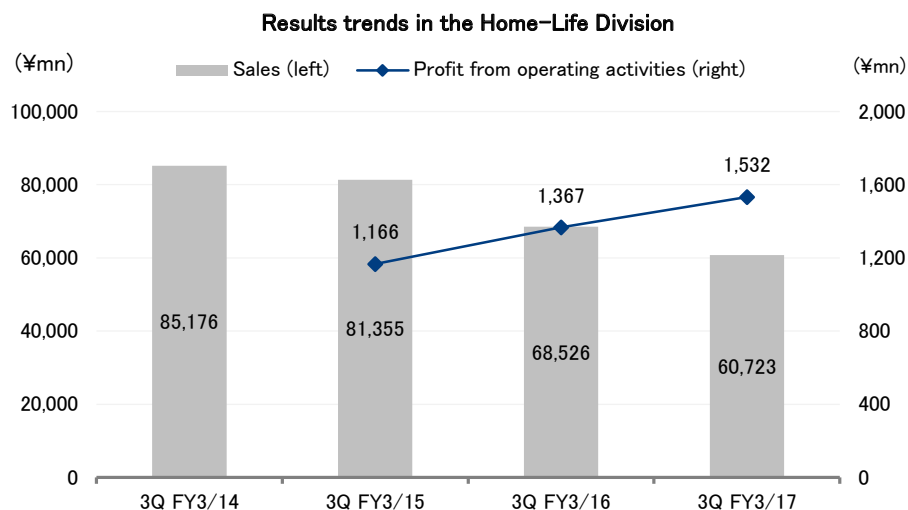
| | FY3/16 | | FY3/17 | | | |
|---|--------------------|------------------|--------------------|---------------|------------------|------------------|
| | 3Q (cumulative) | Full year | 3Q (cumulative) | YoY | Progress rate | Full year |
| Home-Life Division | 68,526 | 95,126 | 60,723 | -11.4% | 64.1% | 94,700 |
| Power & Utility Division | 31,181 | 43,495 | 45,752 | 46.7% | 77.9% | 58,700 |
| Car-Life Division | 408,605 | 534,156 | 365,287 | -10.6% | 67.8% | 538,400 |
| Energy Innovation Division | 321,613 | 398,852 | 258,346 | -19.7% | 69.6% | 371,300 |
| Other | 0 | 0 | - | - | - | - |
| Sales before adjustments | 829,925 | 1,071,629 | 730,108 | -12.0% | 68.7% | 1,063,100 |
| Adjustments | - | - | - | - | - | -3,100 |
| Total sales | 829,925 | 1,071,629 | 730,108 | -12.0% | 68.9% | 1,060,000 |
| Home-Life Division | 1,367 | 3,367 | 1,532 | 12.1% | 30.6% | 5,000 |
| Power & Utility Division | 3,743 | 4,439 | 5,070 | 35.5% | 130.0% | 3,900 |
| Car-Life Division | 2,774 | 4,194 | 3,716 | 34.0% | 77.4% | 4,800 |
| Energy Innovation Division | 2,853 | 3,774 | 2,469 | -13.4% | 65.0% | 3,800 |
| Other | 1 | 1 | - | - | - | 0 |
| Profit from operating activities before adjustments | 10,738 | 15,775 | 12,787 | 19.1% | 73.1% | 17,500 |
| Adjustments | 782 | 609 | 834 | 6.6% | - | 0 |
| Total profit from operating activities | 11,520 | 16,384 | 13,621 | 18.2% | 77.8% | 17,500 |

Source: Prepared by FISCO from the Company's financial results and other materials

Steady improvement in the business environment with the higher LP gas price

2. Trends in the Home-Life Division

The Home-Life Division reported ¥60,723mn in sales (down 11.4% YoY), ¥57,584mn in revenue (including inter-segment transactions; same below) (down 12.5%), ¥1,532mn in profit from operating activities (up 12.1%), and ¥418mn in net profit attributable to Itochu Enex's shareholders (up 202.0%) in cumulative 3Q. Profit increased on weaker sales.

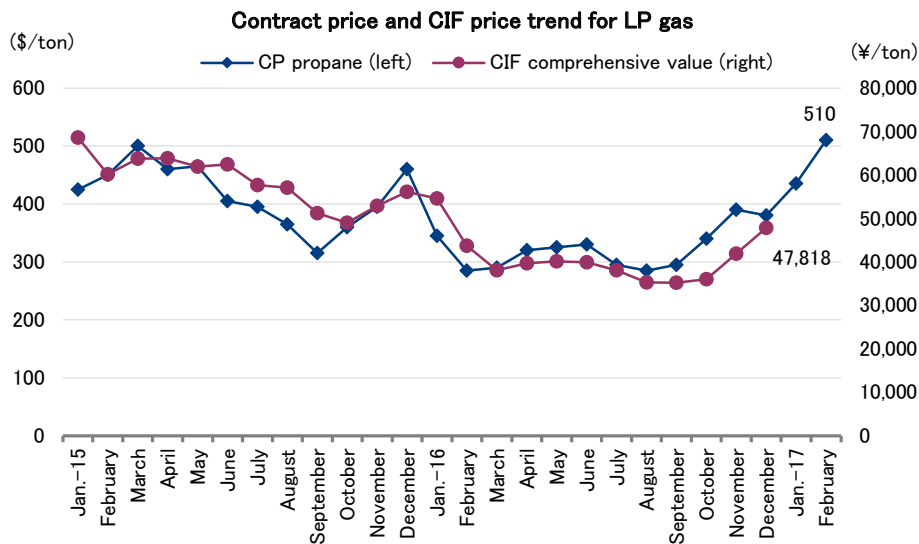


Source: Prepared by FISCO from the Company's financial results

Business Performance

The contract price (CP) for mainstay LP gas sales climbed significantly in 3Q (Oct-Dec 2016). For cumulative 3Q, however, the sales price was still below the previous-year level during 3Q because of the impact of the strong yen. Sales hence declined even though sales volume was roughly on par with the previous year.

Changes in inventory value affect income in the Home-Life Division. Inventory coverage includes LP gas inventories at consolidated sales subsidiaries and inventories at associates accounted for by the equity method that procure LP gas. CP climbed 28.8% from \$295/ton at September to \$380/ton at December. The yen-based CIF price increased substantially too with a 35.8% rise from ¥35,218/ton to ¥47,818/ton. Inventory impact at the end of 3Q, including the portion at associates accounted for by the equity method, hence improved versus the end of 2Q, and this change led to a steep increase in net profit attributable to Itochu Enex's shareholders (+202.0% YoY).



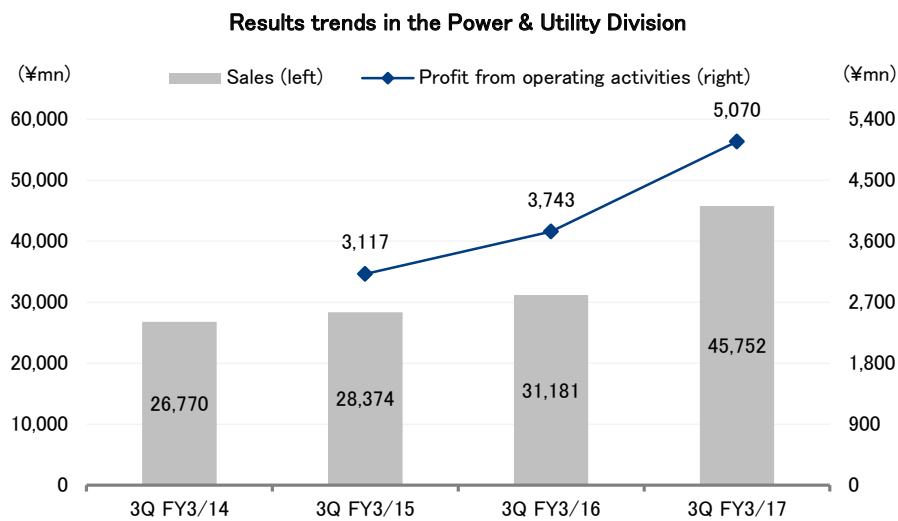
Source: Prepared by FISCO

Collaboration with the Power & Utility Division is an important theme for the Home-Life Division in FY3/17. Specifically, Itochu Enex is promoting electricity sales to households that are customers in the Home-Life Division following the liberalization of electricity retail sales in the low-voltage segment (smaller-volume customers such as ordinary households) since April 2016. It is aiming to recruit 30,000 contracts by the end of March 2017 and already had about 26,000 contracts at the end of December 2016. Contract acquisition is clearly exceeding the target pace and has moved into a range that puts Itochu Enex well on track to exceeding its goal. We think this outcome is evidence of success in the strategy of promoting electricity sales by working through the LP gas sales network and see considerable room for further growth from FY3/18 in light of the overall LP gas customer base (total of about 1.08mn households from direct and indirect customers).

Retail electricity volume surpassing the medium-term business plan, electricity business likely to drive company earnings

3. Trends in the Power & Utilities Division

The Power & Utilities Division reported ¥45,752mn in sales (up 46.7% YoY), ¥44,060mn in revenue (up 43.5%), ¥5,070mn in profit from operating activities (up 35.5%), and ¥2,566mn in net profit (up 35.7%) in cumulative 3Q. Both sales and profits expanded.

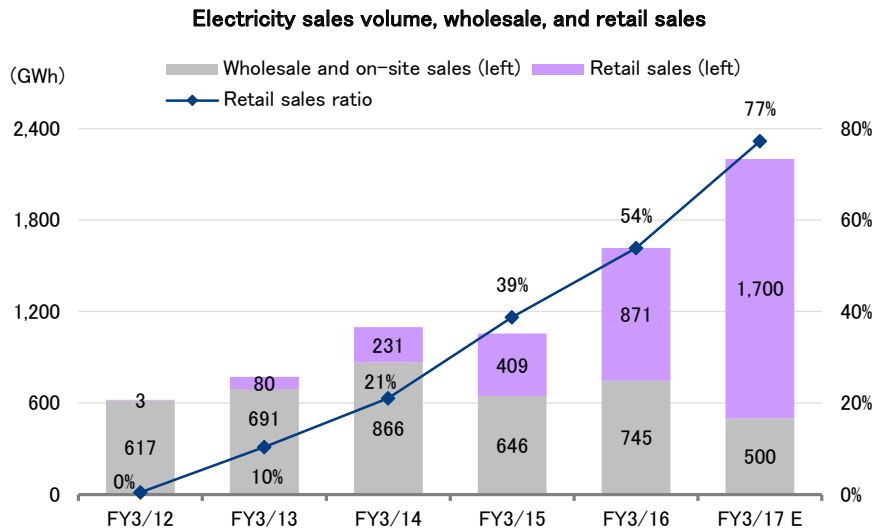


Source: Prepared by FISCO from the Company's financial results

Retail sales volume in the electricity business substantially exceeded the previous year, driving a steep increase in earnings.

Itochu Enex targeted 2,200GWh in total sales volume, including 1,700GWh in retail sales volume, in FY3/17 in the electricity sales volume plan for the Moving 2016 current medium-term business plan announced in May 2015 (the plan has already been updated for announced actual values). Sales through 3Q FY3/17, meanwhile, surpassed the total sales volume and retail sales volume goals. We think pricing, margin, and sales volume are very healthy.

Business Performance



Source: Prepared by FISCO from the Company's materials

Power source procurement and securing sales channels are essential points in the electricity business. In power procurement, self-generated wind power recorded larger output than in the previous year. Thermal-fired plant, however, was lower than in the previous year due to detailed adjustments of nighttime power generation volume amid lower JEPX retail prices.

Itochu Enex secured about 26,000 contracts in the low-voltage segment by the end of December 2016, as noted above, thanks to collaboration with group LP gas sales companies and alliances with external PPS companies. Customer volume in the high-voltage segment also expanded at a healthy pace with increases in retail sales volume at Itochu Enex itself and subsidiary Oji-Itochu Enex Power Retailing Co., Ltd. (60% owned by Itochu Enex). Sales results are well above the medium-term business plan as explained earlier.

The launch of “car and electricity collaboration” as a joint effort with Nissan Osaka Sales from the Car-Life Division is a recent sales initiative. This is a bundling sales program for cars and retail electricity in which customers who purchase Nissan cars (particularly electric vehicles) receive cheaper electricity rates than usual if they also conclude eKotodenki contracts (Itochu Enex’s electricity retail brand). It should not have much impact on earnings in the near term because the program just started in January 2017. However, we anticipate some benefits in raising awareness of Itochu Enex and eKotodenki service.

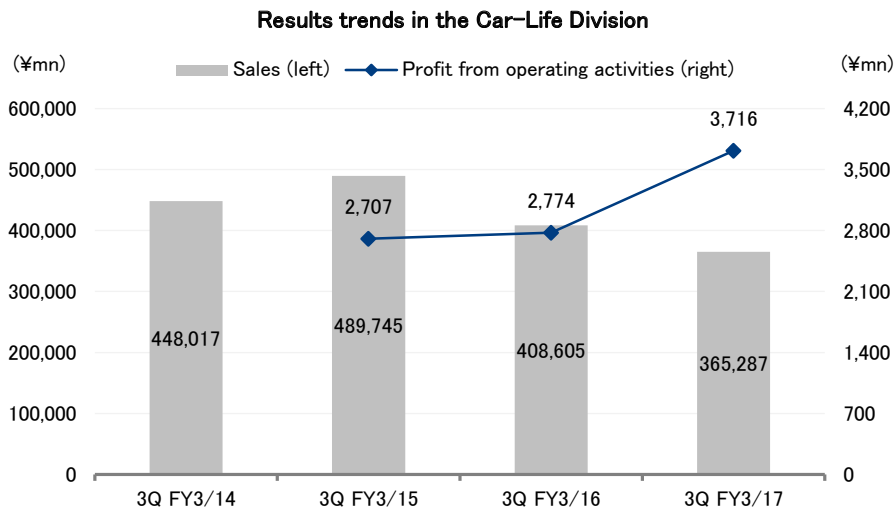
Heat supply demand exceeded previous-year levels owing to a higher average temperature in eastern Japan than in normal years during the summer and lower average temperatures than the previous year in the fall and winter. Profit increased YoY thanks to a decline in raw material costs.

Business Performance

Increase in segment profit as upbeat sales at Nissan Osaka Sales offset weakness in CS business

4. Trends in the Car-Life Division

The Car-Life Division reported ¥365,287mn in sales (down 10.6% YoY), ¥338,216mn in revenue (down 11.7%), ¥3,716mn in profit from operating activities (up 34.0%), and ¥1,701mn in net profit attributable to Itochu Enex's shareholders (up 25.1%) in cumulative 3Q. Profit increased on weaker sales.

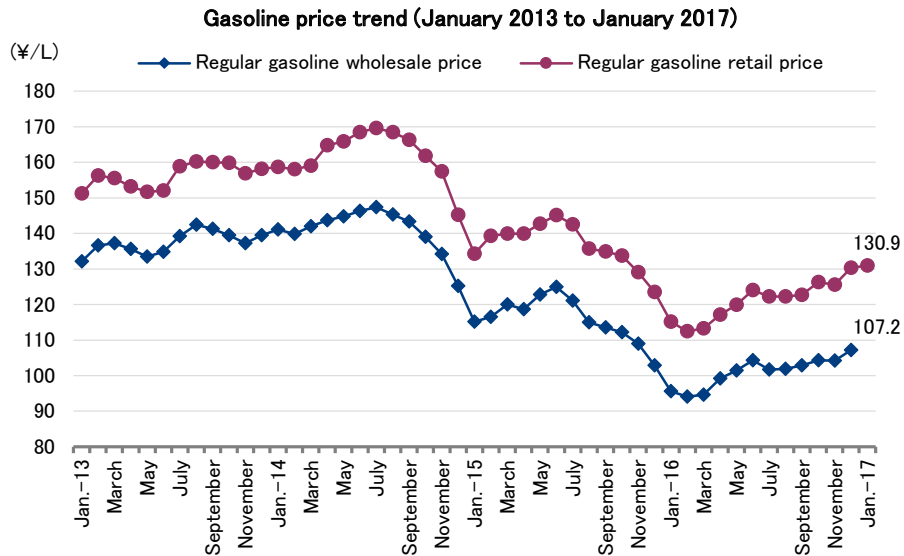


Source: Prepared by FISCO from the Company's financial results

In the CS business, which is one of the division's two core businesses, sales volume declined YoY because of ongoing contraction of domestic fuel oil (gasoline and diesel) demand in Japan. Group CS volume had a net decline of 48 sites in cumulative 3Q, dropping to 1,925 sites as of the end of December 2016, amid continued elimination of sites with aging facilities and unprofitable sites.

Furthermore, fuel oil prices remain at low levels. The price of gasoline, the mainstay product, was below previous-year levels as an absolute value despite an upward trend during 3Q. Sales volume and unit price both missed previous-year levels, and these trends were sources of the YoY decline in Car-Life Division sales.

Business Performance



Source: Prepared by FISCO

Itochu Enex is putting efforts into reinforcement of “non-fuel oil sales” as an effort to counter headwind in the CS business. Specifically, it launched Car-Life Stadium as a new service brand with car rental, car buying, and car sales businesses. Efforts are being made to expand the car wash business too. Member stores for the Japan Car Wash Federation (for corporate customers), which subsidiary ENEXAUTO Co., Ltd. manages as the secretariat, expanded to 2,107 locations, and this business is also promoting use of the “Sensya Senka” car-washing information site by the general public.

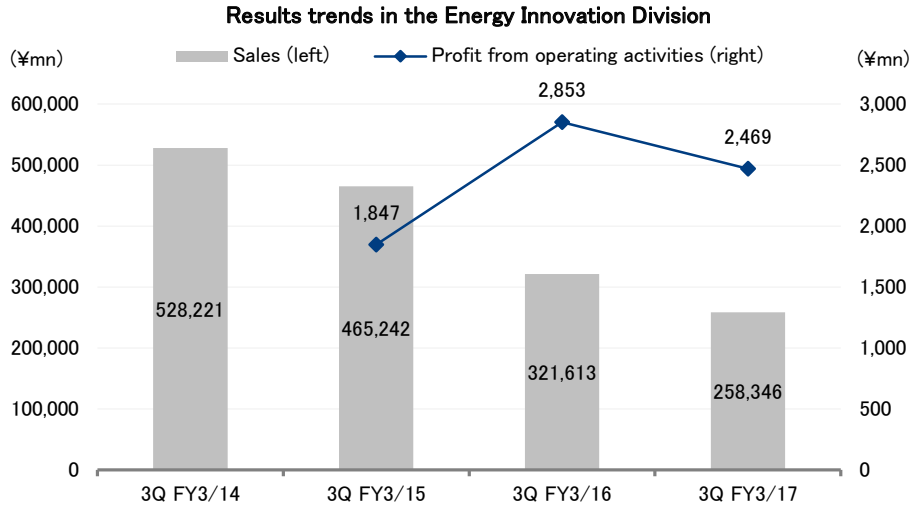
Contributions from the car dealer business at Nissan Osaka Sales enabled the Car-Life Division to achieve a profit increase (YoY) in cumulative 3Q FY3/17. While the falsification incident at Mitsubishi Motors Corporation <7211> heavily affected minicar sales in 1H, Nissan Osaka Sales increased profit because of reinforced sales of Serena, Note, and other models and contributions from services.

Starting new businesses and other advances in portfolio management

5. Trends in the Energy Innovation Division

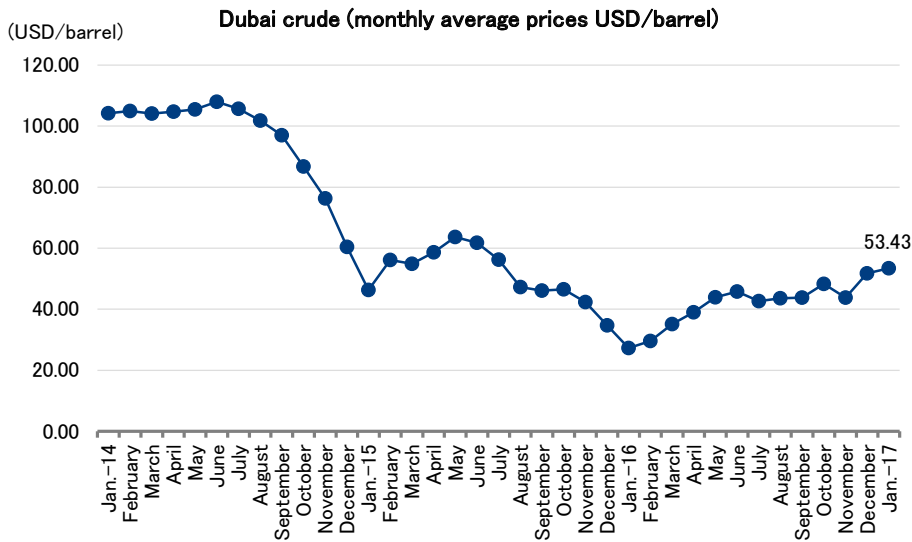
The Energy Innovation Division reported ¥258,346mn in sales (down 19.7% YoY), ¥54,295mn in revenue (down 32.3%), ¥2,469mn in profit from operating activities (down 13.4%), and ¥1,753mn in net profit attributable to Itochu Enex’s shareholders (down 7.1%) in cumulative 3Q. Both sales and profits declined.

Business Performance



Source: Prepared by FISCO from the Company's financial results

While sales were still down by a double-digit rate, the decline narrowed from the level seen through 1H (25.8%). Revisions of inefficient transactions and a slump in the crude-oil price have been primary sources of weaker sales. However, we think recovery in the crude-oil price to the \$40/barrel range since May 2016 and accelerated gains in 3Q (Oct-Dec 2016) helped narrow the decline rate.

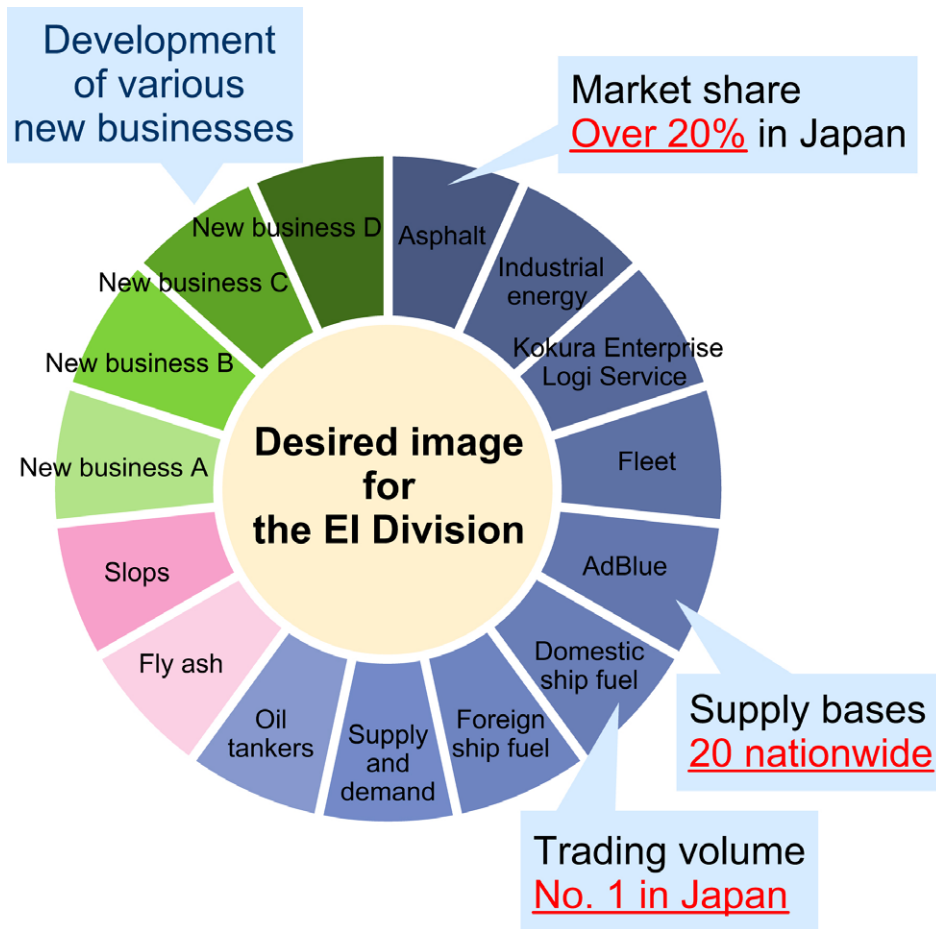


Source: Prepared by FISCO

Business Performance

The Energy Innovation Division continued to pursue suitable and functional utilization of business assets and to promote new business opportunities in 3Q, in line with an existing policy of expanding “portfolio management.” Specific examples are beginning sales to smaller-volume customers in the industrial fuel sales business, establishing integrated production and sales in the AdBlue business utilizing 20 supply sites and 10 alliance plants nationwide, and selling electricity to corporate customers of various sales divisions. Itochu Enex started fly ash, slop, and sludge (recycling of unburned bunker fuel oil) businesses as new areas. These steadfast efforts supported the division’s ¥2,469mn in profit from operating activities (albeit still down 13.4% YoY).

Image of the portfolio management strategy for the Energy Innovation Division



Source: Company's results briefing materials

Business Outlook

Likely to exceed full-year targets thanks to favorable external conditions in 4Q, the strong demand period

• Outlook for FY3/17

Itochu Enex forecasts ¥1,060,000mn in sales (down 1.1% YoY), ¥17,500mn in profit from operating activities (up 6.8%), ¥17,000mn in profit before tax (up 13.3%), and ¥10,000mn in net profit attributable to Itochu Enex's shareholders (up 33.9%) in FY3/17. These targets have not changed.

Outlook for FY3/17 results by business segment

| | FY3/16 | | | FY3/17 | | | |
|---|--------------------|----------------|------------------|--------------------|---------------|------------------|-------------------------|
| | 3Q (cumulative) | 4Q | Full year | 3Q (cumulative) | YoY | 4Q (forecast) | Full year (forecast) |
| Home-Life Division | 68,526 | 26,600 | 95,126 | 60,723 | -11.4% | 33,977 | 94,700 |
| Power & Utility Division | 31,181 | 12,314 | 43,495 | 45,752 | 46.7% | 12,948 | 58,700 |
| Car-Life Division | 408,605 | 125,551 | 534,156 | 365,287 | -10.6% | 173,113 | 538,400 |
| Energy Innovation Division | 321,613 | 77,239 | 398,852 | 258,346 | -19.7% | 112,954 | 371,300 |
| Other | 0 | 0 | 0 | - | - | - | - |
| Sales before adjustments | 829,925 | 241,704 | 1,071,629 | 730,108 | -12.0% | 332,992 | 1,063,100 |
| Adjustment | - | - | - | - | - | -3,100 | -3,100 |
| Total sales | 829,925 | 241,704 | 1,071,629 | 730,108 | -12.0% | 329,892 | 1,060,000 |
| Home-Life Division | 1,367 | 2,000 | 3,367 | 1,532 | 12.1% | 3,468 | 5,000 |
| Power & Utility Division | 3,743 | 696 | 4,439 | 5,070 | 35.5% | -1,170 | 3,900 |
| Car-Life Division | 2,774 | 1,420 | 4,194 | 3,716 | 34.0% | 1,084 | 4,800 |
| Energy Innovation Division | 2,853 | 921 | 3,774 | 2,469 | -13.5% | 1,331 | 3,800 |
| Other | 1 | 0 | 1 | - | - | - | - |
| Profit from operating activities before adjustments | 10,738 | 5,037 | 15,775 | 12,787 | 19.1% | 4,713 | 17,500 |
| Adjustments | 782 | -173 | 609 | 834 | 6.6% | -834 | - |
| Total profit from operating activities | 11,520 | 4,864 | 16,384 | 13,621 | 18.2% | 3,879 | 17,500 |

Source: Prepared by FISCO from the Company's financial results and other materials

Business Outlook

We think Itochu Enex should beat full-year forecast from a comprehensive perspective of progress through 3Q and external conditions, including crude oil and LP gas prices in 4Q. We review our outlook for 4Q activity in the various business divisions.

(1) Home-Life Division

We expect manifestation of benefits from the CP upturn in 4Q. CP has risen even further in 4Q at \$435/ton in January, \$510/ton in February, and \$480/ton in March, sharply above 3Q levels. Impact on inventory should turn positive because the forex rate has stabilized at about ¥113.

We anticipate a boost to sales volume from heating demand due to heavy snowfall in western Japan in late January 2017. While total demand for LP gas is trending lower owing to decline in auto gas (taxi fuel), household LP gas sales volume remains healthy. The above-mentioned weather factor might have contributed to a larger lift in 4Q sales volume than expected.

(2) Power & Utility Division

We expect trends observed through 3Q to continue in 4Q. Retail sales should steadily rise in the electricity sales business because of build-up in retail electricity contract volume. While the crude-oil price has climbed further in 4Q and it is difficult to forecast the impact of the resulting upturn in wholesale electricity prices given the mix of positive and negative impacts depending on time slots, we do not anticipate major erosion of electricity business profitability.

Higher wholesale electricity prices linked to the crude-oil price upturn raise some concern in the heat supply business due to cost inflation. Nevertheless, this is mainly an issue of comparison with conditions through 3Q and does not pose a serious threat because profitability in the heat supply business estimated at current crude-oil and wholesale electricity prices is at a sufficiently high level.

(3) Car-Life Division

Nissan Osaka Sales, the main segment driver through 3Q, is likely to sustain healthy results in 4Q too. Nissan's Note electric vehicle was the top-selling model in January 2017 following a model change (excluding minicars and imported cars; according to data compiled by the Japan Automobile Dealers Association).

The CS business is also likely to continue the pattern seen through 3Q because of a lack of change in overall industry trends. We intend to closely monitor progress in non-fuel sales businesses, rather than gasoline and other fuel sales trends.

(4) Energy Innovation Division

While we anticipate continuation of trends observed through 3Q, the asphalt business deserves notice in 4Q. Asphalt is a main business and key source of earnings in this division. Sales volume generally fell for industrial energy products in 3Q, but asphalt was the only exception with a gain. We will be focusing on how much Itochu Enex expands asphalt sales volume in 4Q, a strong demand period for asphalt given the high percentage of public works in this business.

Business Outlook

Income statement

(¥mn)

| | FY3/15 Full year | FY3/16 | | FY3/17 | | |
|---|---------------------|--------------------|-----------|--------------------|------------------|-------------------------|
| | | 3Q (cumulative) | Full year | 3Q (cumulative) | 4Q (forecast) | Full year (forecast) |
| Sales | 1,373,393 | 829,925 | 1,071,629 | 730,108 | 329,892 | 1,060,000 |
| YoY | -8.8% | -22.1% | -22.0% | -12.0% | 36.5% | -1.1% |
| Revenue | 936,841 | 555,791 | 723,645 | 491,905 | - | - |
| YoY | -3.0% | -23.4% | -22.8% | -11.5% | - | - |
| Gross profit | 85,720 | 65,334 | 89,562 | 67,839 | - | - |
| YoY | 19.7% | 6.7% | 4.5% | 3.8% | - | - |
| % of sales | 6.2% | 7.9% | 8.4% | 9.3% | - | - |
| SG&A expenses | 71,184 | 54,063 | 73,226 | 54,122 | - | - |
| YoY | 23.0% | 5.5% | 2.9% | 0.1% | - | - |
| % of sales | 5.2% | 6.5% | 6.8% | 7.4% | - | - |
| Loss from tangible assets, intangible assets and goodwill | -1,825 | -184 | -593 | -689 | - | - |
| Other - net | 389 | 433 | 641 | 593 | - | - |
| Total other expenses | -72,620 | -53,814 | -73,178 | -54,218 | - | - |
| Profit from operating activities | 13,100 | 11,520 | 16,384 | 13,621 | 3,879 | 17,500 |
| YoY | 10.3% | 19.5% | 25.1% | 18.2% | -20.3% | 6.8% |
| Profit before tax | 12,155 | 10,773 | 15,004 | 13,062 | 3,938 | 17,000 |
| YoY | -12.2% | 22.5% | 23.4% | 21.3% | -6.9% | 13.3% |
| Net profit attributable to Itochu Enex's shareholders | 5,503 | 5,791 | 7,469 | 6,912 | 3,088 | 10,000 |
| YoY | -22.8% | 24.2% | 35.7% | 19.3% | 84.0% | 33.9% |
| EPS (¥) | 48.71 | 51.26 | 66.10 | 61.17 | 27.33 | 88.50 |
| Dividend (¥) | 22.00 | - | 24.00 | - | - | 27.00 |
| Book-value per share (¥) | 862.30 | - | 889.70 | - | - | - |

Source: Prepared by FISCO from the Company's financial results

ITOCHU Enex Co., Ltd | 13-Apr.-2017
 8133 Tokyo Stock Exchange First Section | <http://www.itcenex.com/english/ir/>

Business Outlook

Balance sheet

| (¥mn) | | | | |
|--|---------|---------|---------|-----------|
| IFRS standard | | | | |
| | FY3/14 | FY3/15 | FY3/16 | 3Q FY3/17 |
| Current assets | 188,193 | 157,708 | 137,865 | 169,467 |
| Cash and cash equivalents | 14,251 | 16,184 | 20,824 | 16,981 |
| Trade receivables | 140,289 | 98,449 | 71,968 | 96,553 |
| Inventories | 18,655 | 27,794 | 25,160 | 25,356 |
| Non-current assets | 132,531 | 171,351 | 166,188 | 164,402 |
| Investments accounted for by the equity method | 5,927 | 10,551 | 8,786 | 10,166 |
| Other investments | 7,349 | 8,924 | 8,029 | 7,462 |
| Property, plant and equipment | 66,988 | 88,836 | 88,311 | 87,919 |
| Intangible assets | 10,280 | 23,474 | 24,329 | 23,755 |
| Total assets | 320,724 | 329,059 | 304,053 | 333,869 |
| Current liabilities | 158,336 | 149,443 | 111,997 | 135,394 |
| Short-term bonds and borrowings | 11,499 | 14,208 | 5,299 | 9,528 |
| Trade payables | 125,655 | 104,564 | 80,745 | 104,329 |
| Non-current liabilities | 58,268 | 66,669 | 74,894 | 75,847 |
| Non-current bonds and borrowings | 27,099 | 26,746 | 32,366 | 32,423 |
| Equity | 94,651 | 97,432 | 100,526 | 104,683 |
| Common stock | 19,878 | 19,878 | 19,878 | 19,878 |
| Capital surplus | 18,737 | 18,743 | 18,740 | 18,740 |
| Retained earnings | 59,884 | 62,223 | 66,024 | 69,718 |
| Other components of equity | -2,098 | -1,661 | -2,364 | -1,901 |
| Treasury stock | -1,750 | -1,751 | -1,752 | -1,752 |
| Non-controlling interests | 9,469 | 15,515 | 16,636 | 17,945 |
| Total equity | 104,120 | 112,947 | 117,162 | 122,628 |
| Total liabilities and equity | 320,724 | 329,059 | 304,053 | 333,869 |

Source: Prepared by FISCO from the Company's financial results

Cash flow statement

| (¥mn) | | | | |
|--|---------|---------|---------|-----------|
| IFRS standard | | | | |
| | FY3/14 | FY3/15 | FY3/16 | 3Q FY3/17 |
| Cash flows from operating activities | 17,530 | 34,336 | 30,322 | 8,126 |
| Cash flows from investing activities | -12,556 | -20,410 | -16,673 | -11,976 |
| Cash flows from financing activities | -8,859 | -12,115 | -9,059 | 22 |
| Net decrease in cash and cash equivalents | -3,885 | 1,811 | 4,590 | -3,828 |
| Cash and cash equivalents at the beginning the period | 18,062 | 14,251 | 16,184 | 20,824 |
| Increase in cash and cash equivalents resulting from merger | 74 | 122 | -27 | -15 |
| Effect of exchange rate changes on cash and cash equivalents | - | - | 77 | - |
| Cash and cash equivalents at the end of the period | 14,251 | 16,184 | 20,824 | 16,981 |

Source: Prepared by FISCO from the Company's financial results

■ Longer-Term Growth Strategies

Scheduled to announce the next medium-term business plan in May 2017, focus on advancement and evolution of initiatives from the current medium-term plan

Itochu Enex has been implemented the “Moving 2016” two-year medium-term business plan announced in May 2015, and FY3/17 is the second (final) year. It is on track to fulfilling the goals, as explained above, and should finish this plan. We expect the next medium-term business plan to clarify growth strategies for the longer term, and Itochu Enex is scheduled to announce a new plan in May 2017. We are not aware of earnings goals or the rough content of specific growth strategies at this point. However, management has disclosed some items that are likely to play a role in the next medium-term business plan and we utilized these items as a basis for assessing the direction.

1. Focus on the content and dynamism of what should be pursued in the relatively short span of two years

The next medium-term business plan is likely to last for two years, just as the current plan, because of very rapid changes in the business environment and the importance of responding quickly to changes. While “responding to changes” has a passive tone, Itochu Enex clarified the desired format for its four business segments and outlined many dynamic initiatives aimed at realizing these paradigms in the current medium-term plan. We intend to focus on the goals presented and dynamism of efforts to achieve the goals in the short span of two years in the next medium-term plan as well.

2. Look for whether Itochu Enex presents growth strategies organically linked to the new organizational structure

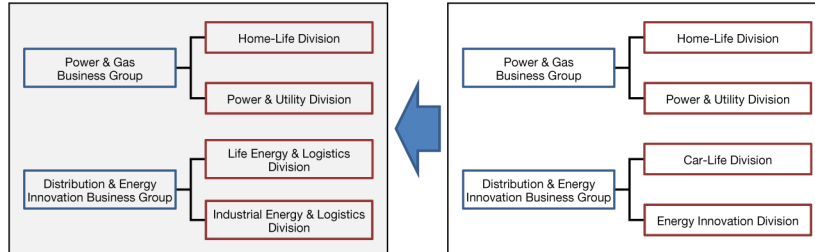
Itochu Enex announced a new organizational structure that takes effect from 1 April on 31 January, 2017. Itochu Enex had operated through the four business divisions – Home-Life, Power & Utility, Car-Life, and Energy Innovation – in past years. It switched to “two groups and four business divisions,” which placed Home-Life and Power & Utility into the Power & Gas Business Group and Car-Life and Energy Innovation into the Distribution & Energy Innovation Business Group, from April 2016 with aims of integrating strategy development and accelerating business initiatives.

The new organization from April 2017 announced by Itochu Enex changes the way in which it divides the former Distribution & Energy Innovation Business Group by adopting a split into the Life Energy & Logistics Division and Industrial Energy & Logistics Division. It also introduces regional business units under the Life Energy & Logistics Division, such as the East Japan Business Unit.

While the organizational structure itself is not a growth strategy, it provides an important infrastructure for efficient execution of growth strategies. We cannot grasp the full scope of Itochu Enex’s growth strategies just from this release on organization change. We are waiting for disclosure of the growth strategies with the organizational revisions as an initial move.

Longer-Term Growth Strategies

Organizational Structure from 1 April, 2017



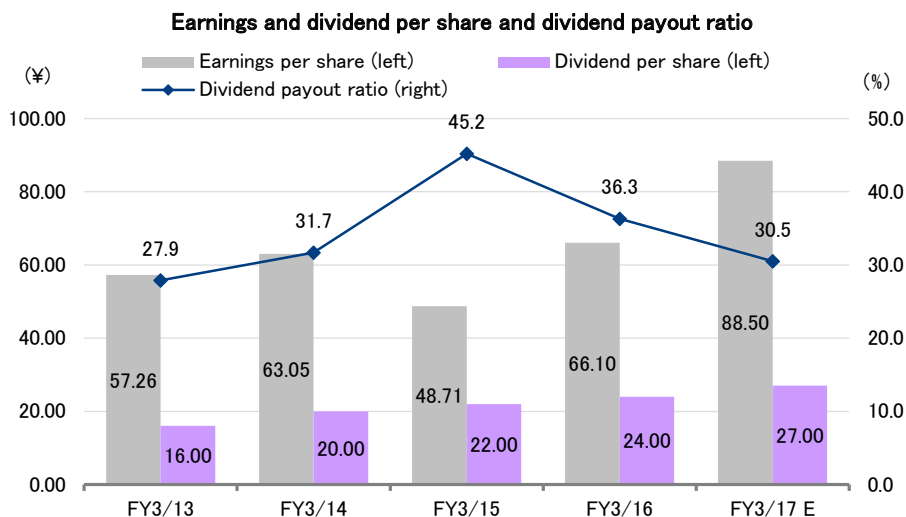
Source: Prepared by FISCO from the Company's press release

Shareholder return policy

Plans to pay a ¥27 dividend in FY3/17 under the policy for a 30% dividend payout ratio

Itochu Enex utilizes dividends to compensate shareholders and has a basic policy on shareholder returns of maintaining a dividend payout ratio of 30%.

Itochu Enex maintained the FY3/17 dividend target at ¥27 and paid a ¥13.5 interim dividend as indicated in the period-start plan. It forecasts ¥10,000mn in net profit attributable to Itochu Enex's shareholders (as previously), or ¥88.5 in earnings per share, for FY3/17. These levels put the dividend payout ratio at 30.5%. We retain our view of expecting an increase of the dividend in a phase of further profit expansion in light of Itochu Enex's policy of a 30% payout ratio.



Source: Prepared by FISCO from the Company's financial results



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