ITOCHU ENEX CO.,LTD.

8133 Tokyo Stock Exchange First Section

14-Sept.-16

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FISCO Ltd. Analyst
Hiroyuki Asakawa

1Q Results On Track with Guidance, Healthy Progress Toward FY3/17 Guidance

A member of the ITOCHU Corp. (8001) group, Itochu Enex (8133) is an energy trade company that is playing a pivotal role in the energy field for the 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.

It reported 1Q FY3/17 results with sales and profit declines at ¥222,091mn in sales (-22.1%) and ¥2,328mn in operating profit (-15.6%). We are not particularly surprised by the YoY declines because crude-oil prices trended lower over the course of FY3/16 from the start of the year through the period-end. We think lower product prices in 1Q FY3/17, compared to the previous year, led to sales and profit setbacks.

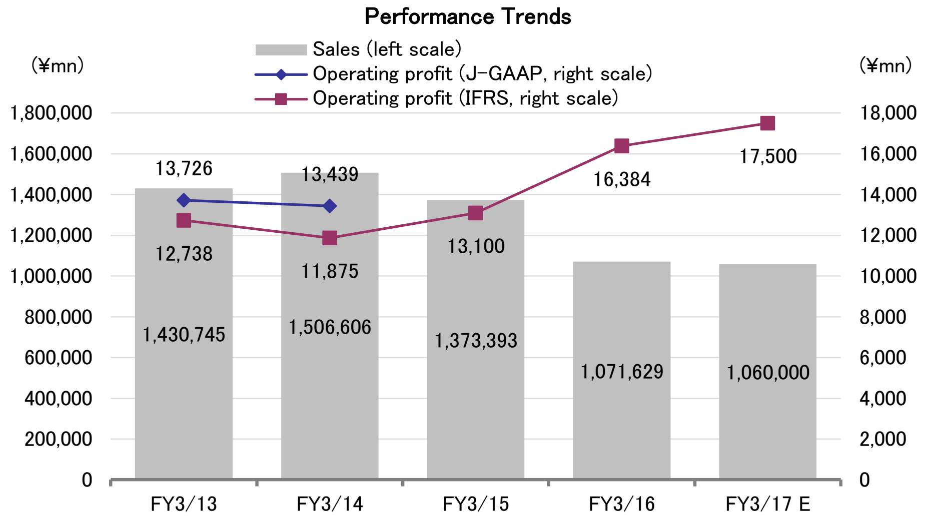
However, we believe Itochu Enex's overall 1Q results were on track with the plan. At the segment level, we think the Home-Life Division and Power & Utility Division were slightly ahead of guidance, while the Car-Life Division and Energy Innovation Division missed. The Car-Life Division even slipped to an operating loss. Yet demand is lowest in 1Q out of the four quarters and we see a reasonable opportunity for Itochu Enex to catch up from 2Q, or even beat FY3/17 guidance, in light of its income seasonality.

The start of full liberalization of retail electricity business in April 2016 is a major event for Itochu Enex's realization of medium-term growth goals. Itochu Enex formed a balancing group with group firms and others and is promoting electricity sales to ordinary households. It appears to have acquired more contracts than expected in the internal plan in 1Q. We expect acceleration of retail electricity sales from August due to a substantial increase in participation by group firms.

The FY3/17 outlook calls for ¥1,060,000mn in sales (-1.1% YoY) and ¥17,500mn in operating profit (+6.8%). We retain our view that Itochu Enex might overshoot in operating profit because oil prices appear to have moved out of the temporary slump and the price assumption used in guidance is lower than the current price. We are not optimistic due to the presence of many uncertainties, including the strong yen impact and fluctuations in demand volume, but will be monitoring trends with hopeful expectations.

Check Point

- Increase in retail electricity volume contributed to higher sales and profits
- 1Q results were on track with guidance, Itochu Enex retained period-start FY3/17 targets
- Itochu Enex plans to pay a ¥27 FY3/17 dividend for a hike of ¥3



Review of 1Q FY3/17 Results

Sales and profits fell YoY because of lower crude-oil prices

Itochu Enex reported 1Q FY3/17 results with sales and profit declines at ¥222,091mn in sales (-22.1%), ¥148,808mn in revenue (-22.1%), ¥2,328mn in operating profit (-15.6%), ¥2,324mn in pretax profit (-11.3%), and ¥1,077mn in net profit attributable to parent shareholders (-19.5%).

We think 1Q results were on track with guidance. We are not particularly surprised by the YoY profit decline because crude-oil prices were lower than in the previous year. The average quarterly crude-oil price in FY3/16 was $61/barrel in 1Q, $50 in 2Q, $41 in 3Q, and $31 in 4Q. Crude oil had an average price of $43 in 1Q FY3/17 (Dubai crude oil in all cases). We believe 1Q seasonality also contributed to the operating loss in the Car-Life Division and see a reasonable opportunity to catch up from 2Q. We advise against excess concern.

The 1Q business plan started with low assumptions for the crude oil price and LP gas contract price in light of significant declines at the end of FY3/16. During 1Q, however, prices moved above plan levels for crude oil and LP gas. While healthier pricing showed up in earnings, slumps and contraction of demand volume exceeded expectations and placed a drag on earnings in some businesses. We hence think it is important to focus on volume trends even more than pricing.

Review of 1Q FY3/17 Results

(Unit: ¥mn)

	FY3/16		FY3/17				
	1Q results	Full year	1Q results	YoY change	Progress rate	Full year (E)	YoY change
Sales	284,999	1,071,629	222,091	-22.1%	21.0%	1,060,000	-1.1%
Revenue	191,056	723,645	148,808	-22.1%	-	-	-
Gross profit	20,537	89,562	20,492	-0.2%	-	-	-
SG&A expenses	17,922	73,226	18,161	1.3%	-	-	-
Operating profit	2,758	16,384	2,328	-15.6%	13.3%	17,500	6.8%
Pretax profit	2,620	15,004	2,324	-11.3%	13.7%	17,000	13.3%
Net profit attributable to parent shareholders	1,339	7,469	1,077	-19.5%	10.8%	10,000	33.9%

Source: FISCO Ltd. from company materials

Business Segment Trends

Sales Declined for Three Segments in 1Q FY3/17

Sales declined in three of four segments in 1Q (Home-Life Division, Car-Life Division, and Energy Innovation Division), and overall sales dropped sharply with a decline of over 20%. For operating income, the Home-Life Division and Power & Utility Division had profit increases, but the Car-Life Division slipped to an operating loss and the Energy Innovation Division reported a decline.

The YoY drop in the crude oil price was a factor in sales weakness because Itochu Enex bases prices for many of its products on crude-oil prices. We think volume is more important as a variable in earnings because many of Itochu Enex's products secure a certain amount of profit margin. While the business segments have unique factors as explained below, these points cover the fundamental dynamics.

Detailed Results by Business Segments

(Unit: ¥mn)

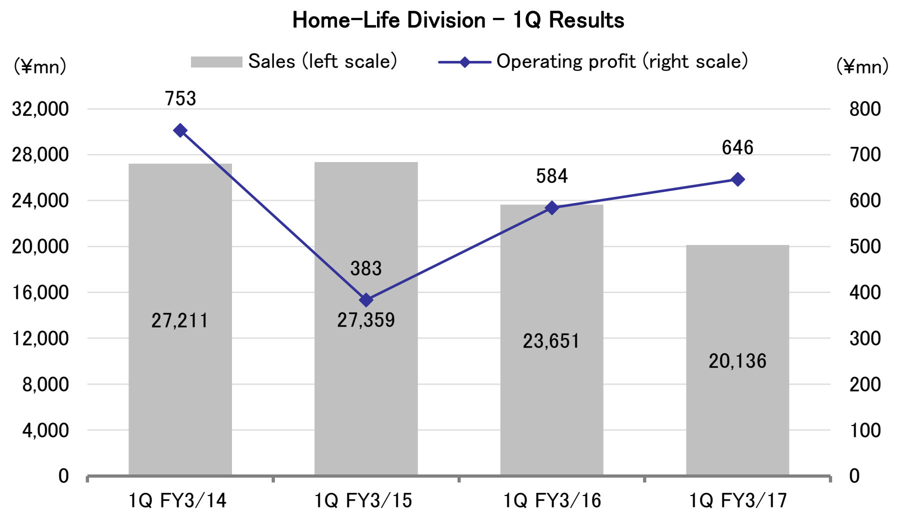
		FY3/16		FY3/17	
		1Q results	Full year	1Q results	YoY change
Sales	Home-Life Division	23,651	95,126	20,136	-14.9%
	Power & Utility Division	10,179	43,495	11,973	17.6%
	Car-Life Division	135,952	534,156	111,055	-18.3%
	Energy Innovation Division	115,217	398,852	78,927	-31.5%
	Others	0	0	-	-
	Sales prior to adjustments (total)	284,999	1,071,629	222,091	-22.1%
	Adjustment value	-	-	-	-
	Sales total	284,999	1,071,629	222,091	-22.1%
Operating profit	Home-Life Division	584	3,367	646	10.6%
	Power & Utility Division	1,150	4,439	1,301	13.1%
	Car-Life Division	245	4,194	-207	-
	Energy Innovation Division	470	3,774	330	-29.8%
	Others	1	1	-	-
	Operating profit prior to adjustments (total)	2,450	15,775	2,070	-15.5%
	Adjustment value	308	609	258	-16.2%
	Operating profit total	2,758	16,384	2,328	-15.6%

Source: FISCO Ltd. from company materials

Lower contract prices and weaker automotive gas demand weighed on sales

(1) Home-Life Division

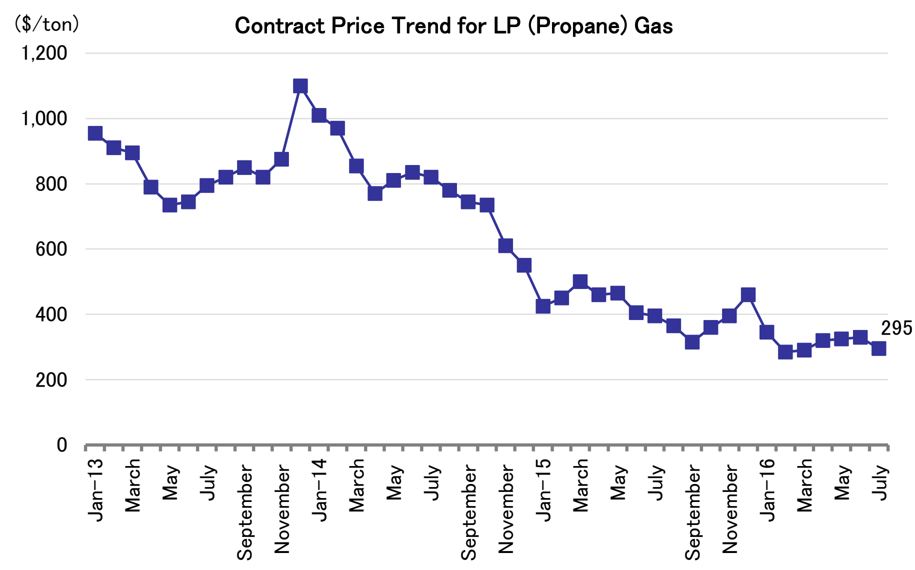
The Home-Life Division reported ¥20,136mn in sales (-14.9% YoY) and ¥646mn in operating profit (+10.6%) for 1Q FY3/17. We attribute the decline in sales to a drop in the contract price and modestly lower sales volume due to weaker automotive gas demand. Operating profit improved thanks to spread support through the raw materials cost adjustment program.



Source: FISCO Ltd. from company materials

The Home-Life Division's core business is selling LP gas. Itochu Enex procures LP gas from Japan Gas Energy Corporation (it owns a 20% stake in this company) and sells LP gas to about 350,000 households through direct-sales subsidiaries. It also sells LP gas on a wholesale basis to about 1,900 distributors (LP gas sales outlets) and covers about 1.08mn households nationwide on a combined basis. Another important target market is automotive gas. Itochu Enex sells LP gas used in taxis that consume this fuel. automotive-gas sales account for about 15-20% of the company's overall LP sales volume (601,000 tons in FY3/16), and this is an important market.

The contract price (CP), which is notified by top exporter Saudi Arabia, is the benchmark price for LP gas. While the contract price corresponds to raw material costs for Japan's LP gas operators, including Itochu Enex, the raw materials cost adjustment program absorbs fluctuations and supports a certain amount of spread. This is the most important characteristic of the income structure in the LP gas business. While the average price and sales volume influence revenue in the LP gas business, profit largely depends on sales volume because spread is supported at a certain level.



Source: FISCO Ltd.

The impact of inventory value needs monitoring in the Home-Life Division. Contract-price changes affect valuation of LP gas inventories, and this leads to expansion or contraction of LP gas spread. The contract price was higher than the end-March level ($290/ton) during 1Q at $320 at the end of April, $325 at the end of May, and $330 at the end of June. While this trend should normally give a boost to operating profit, the yen strengthened in the same period and hindered improvement by the yen-based contract price and we think this prevented large upside for the increase in operating profit.

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A key business theme for the Home-Life Division in FY3/17 is pursuit of synergies with the Power & Utility Division. Specifically, the Home-Life Division's LP gas sales subsidiaries have begun selling electricity to households following full liberalization of electricity retail sales from April 2016. Itochu Enex Home Life Kanto Co., Ltd. and Ecore Co., Ltd. spearheaded this effort with the start of electricity sales in April and appear to be steadily expanding contract volume thus far. Other group companies are launching electricity sales too from August 2016, and seven group firms were selling electricity as of August. Growth in contract volume for electricity sales to households from 2Q deserves attention.

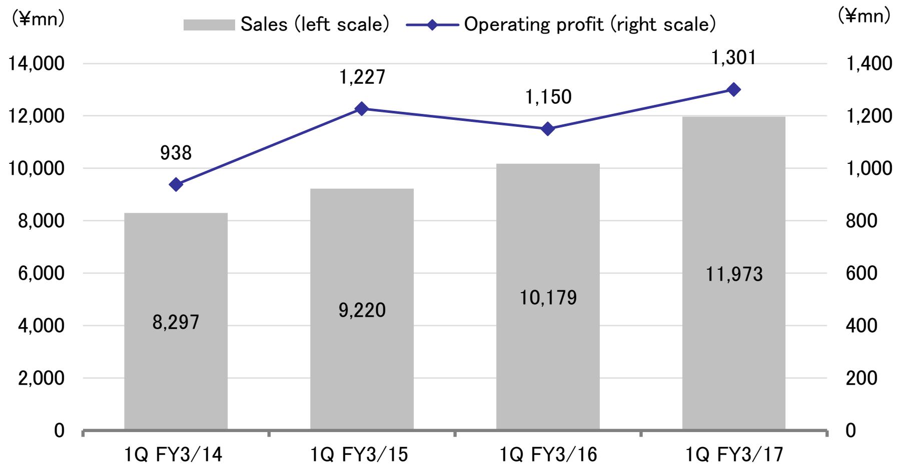
Rise in retail electricity volume contributing to higher sales and earnings

(2) Power & Utility Division

The Power & Utility Division reported ¥11,973mn in sales (+17.6% YoY) and ¥1,301mn in operating profit (+13.1%) for 1Q FY3/17.

The power business has scheduled maintenance for Hofu power generation facilities in FY3/17, but this activity did not take place in 1Q and sales steadily grew. In particular, the rise in retail electricity volume improved spread and contributed to higher profit. The heat supply business, which is handled by subsidiary Tokyo Toshi Service (TTS) Company, faced weaker heat demand than in the previous year in 1Q, but maintained profit at the year-ago level thanks to the crude-oil price downturn.

Power & Utility Division – 1Q Results

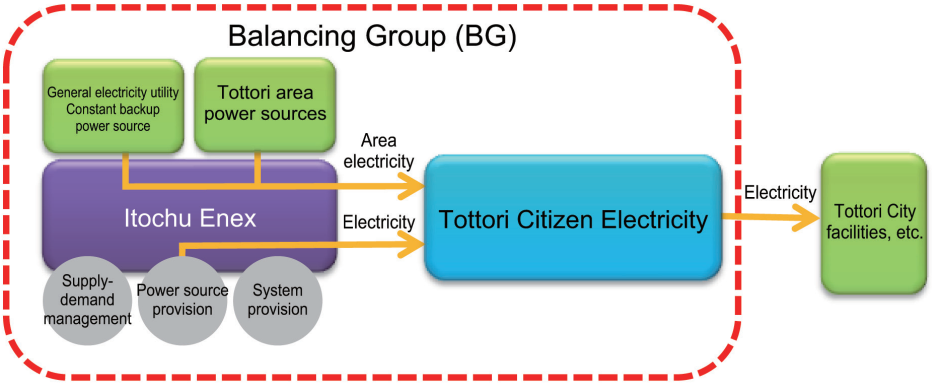


Source: FISCO Ltd. from company materials

The top theme for the Power & Utility Division in 1Q was full liberalization of retail electricity sales from April. Itochu Enex entered the business of electricity sales to ordinary households and other small-volume customers, in addition to the already liberalized high-volume corporate customer (such as supermarkets and office buildings) segment.

Itochu Enex has adopted a balancing group scheme for electricity sales to ordinary households. It serves as the leader of the balancing group (BG) and forms a group with user PPS (power producer and supplier) that have customer networks. Electricity is sold to ordinary households through the user PPS. Itochu Enex takes responsibility for power source provision, supply-demand management, and system provision as the BG leader.

Balancing Group Scheme Example (Tottori Citizen Electricity case)



Source: Company news release

In 1Q, Itochu Enex sold electricity to ordinary households via a balancing group that consisted of two group firms (Itochu Enex Home-Life Kanto and Ecore) and two other firms (Tottori Citizen Electricity Co., Ltd. and Todock Electricity Co., Ltd.). It had an upbeat start with acquisition of almost 10,000 contracts, outpacing the plan. Balancing group members are growing, mainly from group companies as explained above, and these additions are likely to drive healthy increases in contract volume for ordinary households. New members from the Itochu Enex group have plans to begin retail sales from August.

Member Companies in Itochu Enex's Balancing Group

BG Member	Affiliation	Comment
Tottori Citizen Electricity	Non-group firm	January 21, 2016 release
Todock Electricity	Non-group firm	Hokkaido Shimbun article on January 9, 2016
Itochu Enex Home-Life Kanto	Group firm	Retail sales started in April 2016
Ecore	Group firm	Retail sales started in April 2016
Itochu Enex Home-Life Hokkaido	Group firm	Retail sales started in August 2016
Itochu Enex Home-Life Tohoku	Group firm	Retail sales started in August 2016
Itochu Enex Home-Life Chubu	Group firm	Retail sales started in August 2016
Itochu Enex Home-Life Kansai	Group firm	Retail sales started in August 2016
Itochu Enex Home-Life Nishi-Nihon	Group firm	Retail sales started in August 2016

Source: FISCO Ltd. from company releases, articles, and research

Itochu Enex is increasing contracts with high-volume users too thanks to full liberalization of electricity sales. This upturn reflects renewed interest in the advantages of contracts with PPS triggered by full liberalization. Growing contract levels with small-volume and high-volume users should help Itochu Enex achieve the expansion of electricity retail sales volume it is targeting. PPS firms, including Itochu Enex, engage in wholesale sales to Japan Electric Power Exchange (JPEX), along with retail electricity sales to users. Retail sales offer better profitability than wholesale electricity sales in the current phase of slumping crude-oil prices because retail electricity exhibits more price stability than wholesale electricity.

Retail pricing is higher than wholesale pricing at this point, as noted above. PPS firms are naturally trying to raise their ratios of retail electricity in this environment, and Itochu Enex has a similar business plan. It sold 1,616GWh of electricity in FY3/16, and this included 871GWh in retail sales (54%). The medium-term business plan set goals of selling 2,200GWh of electricity with 1,700GWh in retail sales, which corresponds to 77%, in FY3/17. Itochu Enex did not specify its target for total electricity sales volume in the period-start FY3/17 plan, but revised retail electricity volume to 1,950GWh. We think retail sales volume was still at about 60% in 1Q because it had not accumulated enough contracts with small-volume customers. However, the retail sales volume ratio should steadily rise with growth in small-volume contracts.

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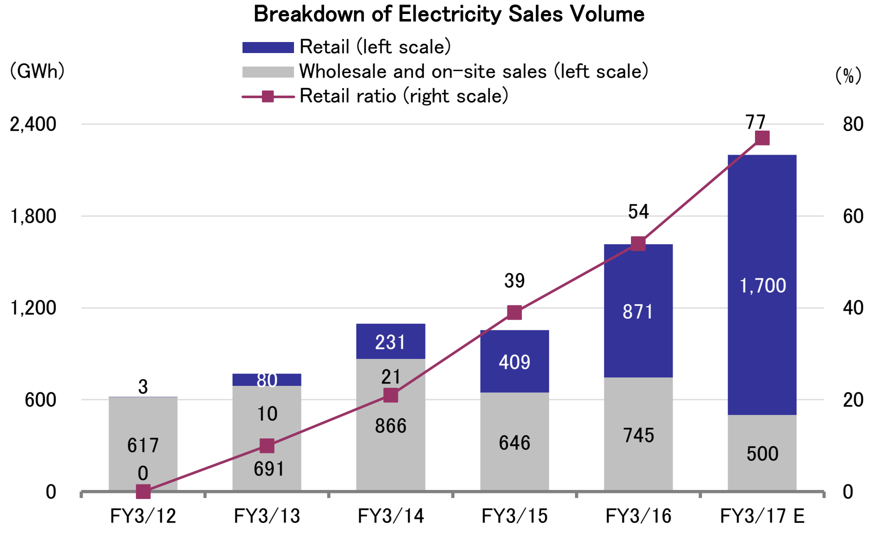
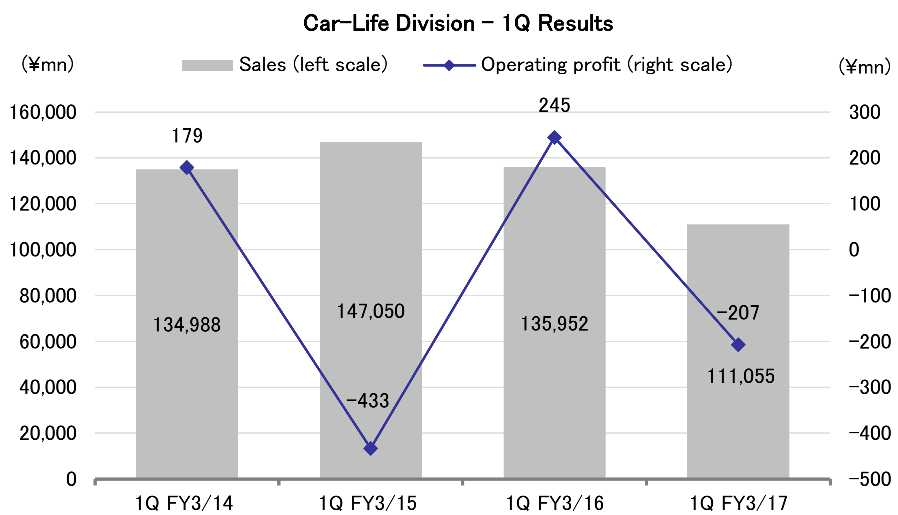


Note: FY3/17 plan shows initial values from the medium-term business plan
Source: FISCO Ltd. from company materials

Pursing traction for the Car-life Stadium brand

(3) Car-Life Division

The Car-Life Division reported ¥111,055mn in sales (-18.3% YoY) and a ¥207mn operating loss (vs. a ¥245mn profit a year earlier) for 1Q FY3/17. Income fell sharply on lower volume and prices in gasoline sales at Car Stations (CS; gas stations). While new businesses utilizing the CS network, such as car rental and car purchasing, and Osaka Car Life Group Co., Ltd. were relatively solid, this was not enough to offset the impact of weaker gasoline sales and the segment slipped to an operating loss.



Source: FISCO Ltd. from company materials

Primary causes of slumping gasoline sales volume remain largely the same, including a graying population, less interest in cars among young people, and growing adoption of hybrid vehicles and other energy-saving vehicles. Gasoline prices were low in 1Q, but the upward trend stood in the way of stimulus for demand and sales volume slowed for the entire industry. The CS side has a scheme for securing a certain amount of spread in gasoline distribution, but price competition intensified amid weak demand in 1Q. Many CS were unable to obtain suitable spread as affiliate stands became entangled in the price competition, leading to the operating loss.

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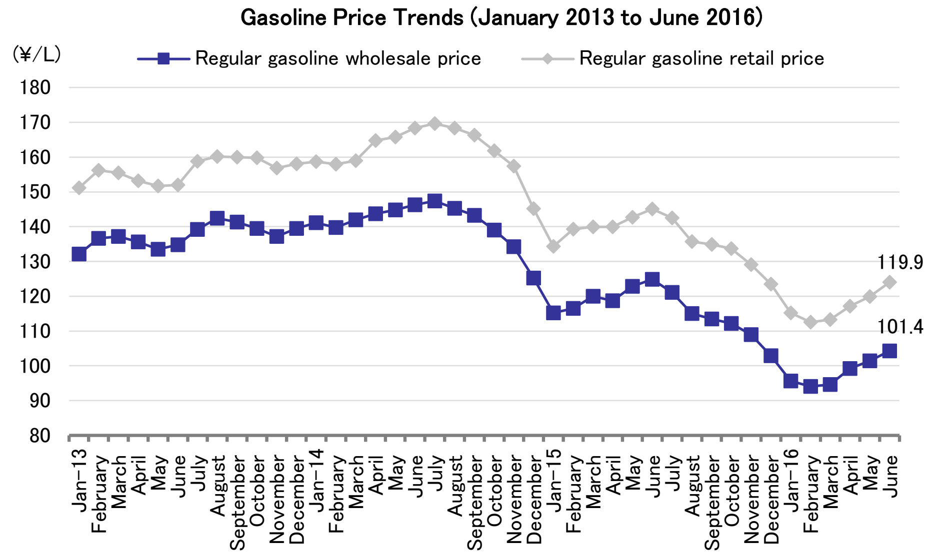


Source: FISCO Ltd. from Agency for Natural Resources and Energy data

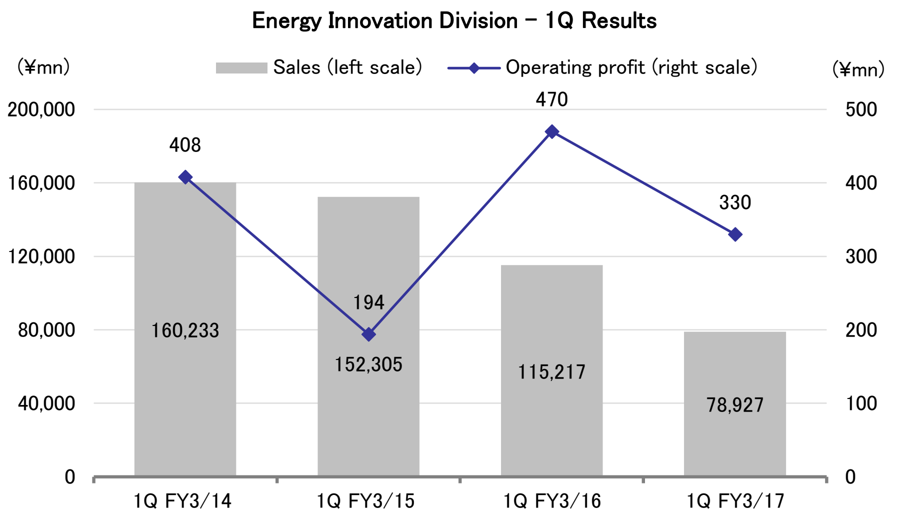
Itochu Enex is focused on strengthening the six vehicle-related businesses, including car rental and car purchasing, in an effort to diversify and escape reliance on gasoline sales in CS operations. It is promoting brand traction with the Car-Life Stadium brand name and logo. While detailed information was not disclosed in 1Q since activities just started, this effort should be monitored.

Osaka Car Life Group includes Nissan Osaka Sales Co., Ltd. While new vehicle sales missed the year-ago level in part owing to an impact from the falsification of fuel-economy values by Mitsubishi Motors Corporation <7211>, results still grew YoY and exceeded guidance thanks to healthy used car sales and stronger services income.

Aims to address changes in the external environment through updates of the business portfolio

(4) Energy Innovation Division

The Energy Innovation Division reported ¥78,927mn in sales (-31.5% YoY) and ¥330mn in operating profit (-29.8%) for 1Q FY3/17. Many products handled by this segment closely correlate to crude-oil prices, and product sales prices generally declined from previous-year levels, which affected the results. Sluggish sales volumes for industrial fuels, bunker fuel oil (ship fuel), diesel fuel, and other products weighed on income too.



Source: FISCO Ltd. from company materials

Itochu Enex aims to address changes in the external environment through updates of the business portfolio in the Energy Innovation Division, and changes include revisions to inefficient transactions. The steep sales decline hence does not give an accurate depiction of actual business, and we advise against overly pessimistic views.

A positive development in 1Q was removal of inventory impact linked to the price decline and a related improvement in income in the mainstay asphalt business. We think the increase in handling volume for the oil trade business was also positive for the segment.

Many products in the Energy Innovation Division can secure a certain amount of spread even with price fluctuations, and segment profits reflect a structure of “margin x volume.” Volume growth came in below expectations in 1Q, and we believe this weakness resulted in lower profits. Mainstay asphalt business primarily relies on public investment demand, and activity mainly occurs in the second half of the fiscal year. We will be looking for a rebound, including support from economic stimulus.

FY3/17 Outlook

1Q results were on track with guidance, Itochu Enex retained period-start FY3/17 targets

Itochu Enex projects ¥1,060,000mn in sales (-1.1% YoY), ¥17,500mn in operating profit (+6.8%), ¥17,000mn in pretax profit (+13.3%), and ¥10,000mn in net profit attributable to parent shareholders (+33.9%) for FY3/17. These targets are the same as values from the start of the fiscal year.

We think 1Q FY3/17 results (explained above) were generally on track with guidance at the overall level as modest upside in the Power & Utility Division and Home-Life Division offset weaker-than-anticipated income in the Car-Life Division. We agree with Itochu Enex’s decision to maintain period-start guidance at this point because 1Q is a slow demand period for the full range of its products and there is no need to significantly revise the full-year view based on 1Q results.

We advise against pessimistic views even though profits slipped from year-ago levels in 1Q. Crude-oil prices steadily declined during FY3/16, as noted above, and we thus expect a gradual downward trend in YoY hurdles as FY3/17 advances. We also see reassurance in the $35-40/barrel price assumption used in FY3/17 guidance.

FY3/17 Outlook - Detailed Results by Business Segments

(Unit: ¥mn)

		FY3/16		FY3/17			
		1Q results	Full year	1Q results	YoY change	Full year (E)	YoY change
Sales	Home-Life Division	23,651	95,126	20,136	-14.9%	94,700	-0.4%
	Power & Utility Division	10,179	43,495	11,973	17.6%	58,700	35.0%
	Car-Life Division	135,952	534,156	111,055	-18.3%	538,400	0.8%
	Energy Innovation Division	115,217	398,852	78,927	-31.5%	371,300	-6.9%
	Others	0	0	-	-	0	-
	Sales prior to adjustments (total)	284,999	1,071,629	222,091	-22.1%	1,063,100	-0.8%
	Adjustment value	-	-	-	-	-3,100	-
	Sales total	284,999	1,071,629	222,091	-22.1%	1,060,000	-1.1%
Operating profit	Home-Life Division	584	3,367	646	10.6%	5,000	47.0%
	Power & Utility Division	1,150	4,439	1,301	13.1%	3,900	-12.6%
	Car-Life Division	245	4,194	-207	-	4,800	14.9%
	Energy Innovation Division	470	3,774	330	-29.8%	3,800	0.2%
	Others	1	1	-	-	0	-
	Operating profit prior to adjustments (total)	2,450	15,775	2,070	-15.5%	17,500	10.9%
	Adjustment value	308	609	258	-16.2%	0	-
	Operating profit total	2,758	16,384	2,328	-15.6%	17,500	6.8%

Source: FISCO Ltd. from company materials

Below we review key points for individual business segments.

(1) Home-Life Division

The FY3/17 segment guidance calls for ¥94,700mn in sales (-0.4% YoY) and ¥5,000mn in operating profit (+47.0%). We found this outlook to be conservative and particularly expected upside in earnings at the start of the year, and we maintain our view.

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Itochu Enex explained that it uses $270/ton as the contract price assumption to formulate FY3/17 guidance. The contract price has remained well above this level so far, and we expect upside from this factor if these conditions continue. We think yen appreciation, however, poses risk to upside expectations. While forex rate movements appear to be neutral factor in terms of direct implications, the domestic contract price is a function of the USD-based contract price and the foreign exchange rate, so the strengthening yen offsets the upward effect of the USD-based contract price.

(2) Power & Utility Division

The FY3/17 segment guidance calls for ¥58,700mn in sales (+35.0% YoY) and ¥3,900mn in operating profit (-12.6%). While profit increased YoY in 1Q owing to the absence of scheduled maintenance and facility upgrades, we think it is necessary to factor in the possibility of a decline in operating profit for the full year as projected in guidance. However, the profit decline can be largely attributed to the following accounting reasons and we believe thus business should sustain sales and profit gains in real terms.

Heat supplier TTS plans to book a major urban development deal and upgrade equipment and has factored in a related disposal loss of ¥600mn. The loss is recognized as an operating expense under IFRS accounting (used by Itochu Enex). This cost lowers operating profit and is the main source of the profit decline outlook. The plan also includes profit setbacks from booking costs related to scheduled maintenance of Hofu power generation facilities and a rise in raw material costs at TTS related to the upswing in the crude-oil price.

Retail electricity volume is an important point. The plan factors in a 123.9% YoY rise to 1,950GWh. The medium-term business plan targeted 2,200GWh in FY3/17 sales volume with retail sales at 1,700GWh, and the period-start plan raised this view. Electricity sales to ordinary households started in April 2016, as explained above, and we think the number of electricity supply contracts to households and percentage of higher margin retail electricity sales volume are important KPIs (key performance indicators) for the Power & Utility Division.

(3) Car-Life Division

The FY3/17 segment guidance calls for ¥538,400mn in sales (+0.8% YoY) and ¥4,800mn in operating profit (+14.9%). This segment unexpectedly posted an operating loss in 1Q. While it clearly faces a tougher hurdle in catching up and attaining the period-start target for earnings from operating activities at the full-year level, we believe it is capable of recovering to some extent.

We think Itochu Enex normally takes a conservative view of gasoline sales volume at the period-start stage (projecting a YoY decline). However, sales volume in 1Q was even lower than the target level and we believe this situation caused entanglement in price competition to a level below suitable spread.

Expansion of income from non-gasoline businesses is vital to rebuilding the Car-Life Division and restoring it to a growth trajectory because of structural downturn in gasoline demand. We will be closely monitoring business initiatives in the six car-related areas operating under the Car-Life Stadium brand, the main initiative in non-gasoline business efforts. In particular, we will be focusing on income trends in rental car and car purchasing businesses with relatively quick impacts.

(4) Energy Innovation Division

The FY3/17 segment guidance projects ¥371,300mn in sales (-6.9% YoY) and ¥3,800mn in operating profit (+0.2%). Profit fell in 1Q due to a mix of positive and negative factors. However, we think the segment is capable of catching up from 2Q because 1Q contributes less than one-fourth of annual demand.

Cutbacks in inefficient transactions affect segment income in addition to crude-oil prices and volume changes. We thus think that the nominal sales decline rate does not necessarily provide an accurate depiction of the reality. We expect trends in sales volumes for the segment's various products to be more important than price movements. In particular, we are focusing on trends for mainstay asphalt. While asphalt income weakened over the past few years due to the impact of inventories amid steady decline in the crude-oil price, we expect this business to secure a certain amount of margin in FY3/17 with help from the crude-oil price staying above the budget assumption. We think volume will be a key factor in this context and therefore will pay close attention to the extent of benefits from the government's economic measures.

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Income Statement

(Unit: ¥mn)

	FY3/14	FY3/15	FY3/16		FY3/17	
	Full year	Full year	1Q	Full year	1Q	Full year (E)
Sales	1,506,606	1,373,393	284,999	1,071,629	222,091	1,060,000
YoY change	5.3%	-8.8%	-15.2%	-22.0%	-22.1%	-1.1%
Revenue	966,044	936,841	191,056	723,645	148,808	-
YoY change	11.7%	-3.0%	-15.8%	-22.8%	-22.1%	-
Gross profit	71,599	85,720	20,537	89,562	20,492	-
YoY change	2.8%	19.7%	19.7%	4.5%	-0.2%	-
Ratio to sales	4.8%	6.2%	7.2%	8.4%	9.2%	-
SG&A expenses	57,862	71,184	17,922	73,226	18,161	-
YoY change	3.9%	23.0%	15.0%	2.9%	1.3%	-
Ratio to sales	3.8%	5.2%	6.3%	6.8%	8.2%	-
Fixed asset income	-1,460	-1,825	-41	-593	-251	-
Other income	-402	389	184	641	248	-
Other income and costs (total)	-59,724	-72,620	-17,779	-73,178	18,164	-
Operating profit	11,875	13,100	2,758	16,384	2,328	17,500
YoY change	-6.8%	10.3%	69.0%	25.1%	-15.6%	6.8%
Pretax profit	13,844	12,155	2,620	15,004	2,324	17,000
YoY change	13.2%	-12.2%	55.6%	23.4%	-11.3%	13.3%
Net profit	8,050	6,529	1,573	8,964	1,420	-
YoY change	8.9%	-18.9%	66.8%	37.3%	-9.7%	-
Net profit attributable to shareholders	7,124	5,503	1,339	7,469	1,077	10,000
YoY change	10.1%	-22.8%	75.6%	35.7%	-19.5%	33.9%
EPS (¥)	63.05	48.71	11.85	66.10	9.53	88.50
Dividend (¥)	20.00	22.00	-	24.00	-	27.00
Portion attributable to company stock per share (BPS, ¥)	833.20	862.30	-	889.70	-	-

Source: FISCO Ltd. from company materials

Balance Sheet

(Unit: ¥mn)

	IFRS standard			
	FY3/14	FY3/15	FY3/16	1Q FY3/17
Current assets	188,193	157,708	137,865	139,810
Cash and equivalents	14,251	16,184	20,824	13,203
Operating credits	140,289	98,449	71,968	75,351
Inventory assets	18,655	27,794	25,160	22,487
Non-current assets	132,531	171,351	166,188	163,566
Equity method investments	5,927	10,551	8,786	8,695
Other investments	7,349	8,924	8,029	7,259
Tangible fixed assets	66,988	88,836	88,311	87,846
Intangible fixed assets	10,280	23,474	24,329	24,024
Assets total	320,724	329,059	304,053	303,376
Current liabilities	158,336	149,443	111,997	110,340
Corporate bonds and loans	11,499	14,208	5,299	12,462
Operating liabilities	125,655	104,564	80,745	74,519
Non-current liabilities	58,268	66,669	74,894	77,104
Corporate bonds and loans	27,099	26,746	32,366	34,490
Equity attributable to parent owners (total)	94,651	97,432	100,526	99,298
Capital	19,878	19,878	19,878	19,878
Surplus capital	18,737	18,743	18,740	18,740
Surplus earnings	59,884	62,223	66,024	65,634
Others	-2,098	-1,661	-2,364	-3,202
Treasury shares	-1,750	-1,751	-1,752	-1,752
Minority equity	9,469	15,515	16,636	16,634
Capital total	104,120	112,947	117,162	115,932
Liabilities and capital total	320,724	329,059	304,053	303,376

Source: FISCO Ltd. from company materials

Cash Flow Statement

(Unit: ¥mn)

	IFRS standard			
	FY3/14	FY3/15	FY3/16	1Q FY3/17
CF from operating activities	17,530	34,336	30,322	-8,238
CF from investment activities	-12,556	-20,410	-16,673	-6,637
CF from financing activities	-8,859	-12,115	-9,059	7,301
Changes in cash and deposits	-3,885	1,811	4,590	-7,574
Period-start cash and deposits balance	18,062	14,251	16,184	20,824
Currency fluctuation impact value	74	122	-27	-47
Period-end cash and deposits balance	14,251	16,184	20,824	13,203

Source: FISCO Ltd. from company materials

We encourage readers to review our complete legal statement on “Disclaimer” page.

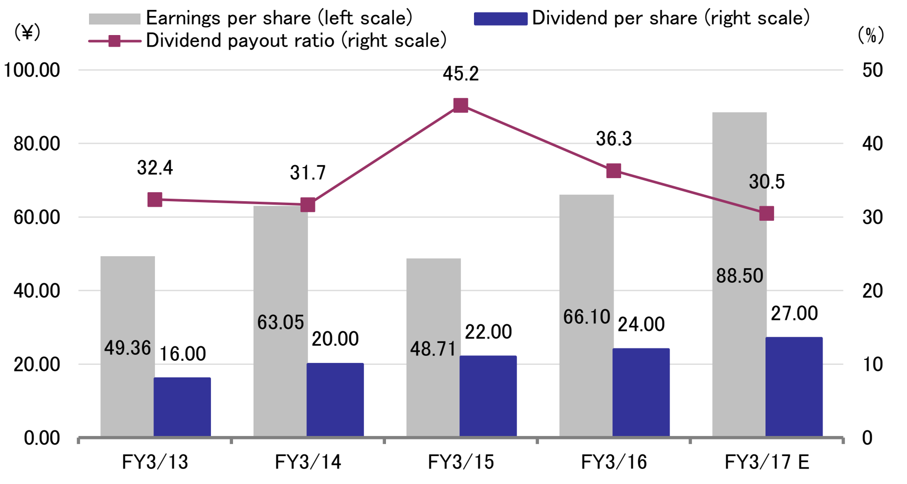
Shareholder Returns

Plans to raise the dividend by ¥3 to ¥27 in FY3/17

The basic policy on shareholder returns is to maintain a dividend payout ratio of at least 30%. For FY3/17, Itochu Enex disclosed a dividend outlook of a ¥3 hike to ¥27 (¥13.5 interim, ¥13.5 year-end). It did not alter the dividend target following 1Q results.

Itochu Enex forecasts ¥10,000mn in net profit attributable to parent shareholders (as previously), or ¥88.5 in earnings per share, for FY3/17, the final year of the current medium-term business plan. These levels put the dividend payout ratio at 30.5%. We maintain 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.

Earnings and Dividend Per Share and Dividend Payout Ratio Trends



Source: FISCO Ltd. from company materials

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