Conference Transcript: Financial Results for FY2017

(Announced on May 11, 2018)

Good afternoon. My name is Masaji Santo, President and CEO of Chiyoda Corporation. Thank you very much for your coverage of Chiyoda Corporation and your attendance at the meeting today.
Let me start my presentation by briefing you on our financial results for the fiscal year ended March 2018 and our results forecasts for the fiscal year ending March 2019.

First, for the financial results for the fiscal year ended March 2018, please take a look at page 2. We have listed the results highlights on this page.

The first point is that net income reached 6.4 billion yen and that we were able to move to profitability from a loss of 41.1 billion yen, as the next slide on page 3 shows.

As a result, the dividend per share has been increased to 7.5 yen, equivalent to a payout ratio of 30% and an increase of 1.5 yen from the previous fiscal year.

Going back to page 2, the second point of the results highlights is that new orders grew steadily in the environmental engineering business. While new orders of the Company totaled 301.2 billion yen, new orders in the environmental engineering field came to 122.7 billion yen, making up 41% of all new orders and growing 26% from the previous fiscal year.

The third point is that the reduction of SG&A expenses made progress due to the promotion of structural reforms. SG&A expenses declined about 1.6 billion yen, or 7%, from the previous fiscal year, mainly due to the reductions at Group companies in Japan and overseas.

The fourth point is that we posted an incremental cost of about 30 billion yen in comparison with the initial plan because of projects in the United States, as I explained when we announced the financial results for the second quarter on November 10, 2017. This resulted in an operating loss of 12.3 billion yen and an ordinary loss of 10.1 billion yen.

Next, please look at new orders on page 4.

Total new orders stood at 301.2 billion yen, falling below the full-year forecast of 350.0 billion yen. However, looking at new orders by region on the left of the slide, new orders in Japan were 151.7 billion yen, higher than the forecast.

Looking at new orders by field on the right of the slide, new orders in the environmental engineering field, which consists of pharmaceutical, biochemistry and chemical as well as environment, new energy and infrastructure, reached 122.7 billion yen, making up about 41% of total new orders and showing that orders are growing steadily. This suggests that our efforts are bearing fruit in this field, which we set as a priority area in the medium-term management plan formulated in August 2017.

Now, please take a look at the order backlog on page 5.

The order backlog at the end of March 2018 was 653.5 billion yen, mainly reflecting progress in uncompleted construction contracts, but we believe that the order backlog will turn up going forward, given that large orders can be expected in the fiscal year ending March 2019 associated with the recovery of market conditions for LNG, among other factors.

Next, let's examine the statement of income on page 6.

First, revenues, or net sales of completed construction contracts, were 510.9 billion yen, which was almost the same as the full-year forecast. As you can see in the details on page 7, looking at revenues by region on the left, total overseas revenues declined about 100 billion yen from the previous fiscal year, mainly due to progress in large ongoing projects, but orders were growing steadily in Japan. Accordingly, total domestic revenues also increased from the previous fiscal year.

Let's go back to page 6.

SG&A expenses declined about 1.6 billion yen, or 7%, from the previous fiscal year mainly at the Group companies in Japan and overseas due to progress in structural reform, as I have already explained.

In terms of operating income and ordinary income, we have posted an operating loss of 12.3 billion yen and an ordinary loss of 10.1 billion yen. The majority of these losses stem from additional costs of about 30 billion yen recognized at projects in the U.S., as previously announced in the Q2 results.

Net income amounted to 6.4 billion yen, higher than the full-year forecast of 5.0 billion yen, mainly due to the posting of extraordinary income of 15 billion yen, reflecting the reversal of the provision for loss for EMAS Chiyoda Subsea announced at the time of the release of the financial results for the second quarter and sales of some shares of affiliates. In addition there was a refund of federal income tax at the U.S. subsidiary, which is the contracting party of the projects in the United States, associated with the increase in costs for the projects.

Let's go to page 8 and take a look at the balance sheet.

Cash and deposits declined 39.3 billion yen from the end of the previous fiscal year, to 104.0 billion yen, mainly due to the payment to vendors / subcontractors in on-going projects and because of a gap in the timing of receiving funds.

Provision for loss on business of subsidiaries and associates decreased by 22.9 billion yen from the end of the previous fiscal year, due to the reversal of the provision for loss for EMAS Chiyoda Subsea.

Finally, I will explain our results forecasts for the fiscal year ending March 2019. Please take a look at page 9.

First, with respect to new orders, we forecast 800 billion yen mainly because we have begun seeing movements in large projects associated with the recovery of market conditions for LNG, among other factors.

In terms of the breakdown for overseas and domestic, we forecast 600 billion yen for the former and 200 billion yen for the latter.

For more details, I will provide an explanation in the report on the current management status.

As for revenues, we forecast 400 billion yen, given that progress in large ongoing LNG projects has passed the peak, and we forecast 30 billion yen for gross profit on completed construction contracts.

We plan to reduce SG&A expenses to 18.5 billion yen by further promoting structural reform, and as a result, we forecast operating income of 11.5 billion yen, ordinary income of 12.5 billion yen and net income of 6.5 billion yen.

In terms of dividends, we forecast 7.5 yen for the annual dividend per share.

That concludes my presentation of our financial results for the fiscal year ended March 2018 and results forecasts for the fiscal year ending March 2019.

Now let's move to "Business Overview" part.

Firstly, please refer to Page 2 showing Chiyoda's business environment.

This page is divided into three sectors: Energy Business, the Global Environment Business and Digital Technology Innovation.

The key points are:

☐ Energy Business: An increase in natural gas demand mainly in Asia and continued development in shale petroleum/petrochemical projects in the U.S.

☐ Global Environmental Engineering Business: Increased investment in renewable energy and electricity storage aiming for a decarbonizing society and the development of energy storage technologies.

☐ Digital Technology Innovation: Rapid evolution in the application of AI / Big data / IoT with multiple options.

Moving on, I will explain Chiyoda's business development strategy according to these external influences.

Page 3 shows that business development expected for the energy sector this term can be divided into two categories: an increase in the award of large-scale EPC projects and the establishment of an energy value chain.

Large-scale EPC, Refinery, Chemical, and Metal projects, as shown in the top right corner of the slide, will be explained later. However, the award of a large-scale petrochemical project overseas is a real prospect for us. As indicated in the top left hand corner of the slide, a number of projects have commenced in accordance with a recent increase in LNG demand. Chiyoda expects FID of large-scale LNG projects in the U.S. or Africa this term, and projects in Papua New Guinea, Qatar and Russia, where we have previously successfully delivered projects in the past, have started moving forward. Our current operations, including FEED, continue and will hopefully lead to the award of EPC from next term.

The lower part of the slide shows the establishment of an energy value chain business. Gas-to-Power projects have commenced as asset holding business in Southeast Asia, especially in the downstream sector. This will not immediately be reflected in this term's figures, but we will actively work on these projects as one of stable sources of revenue in the future.

Please refer to Page 4.
This page concerns the global environmental engineering business and is divided into the three categories shown from left to right: New Energy, Environment / Energy Saving / New Materials and Life Science.

New Energy and Life Science are regarded as future growth drivers. In New Energy, we are aiming for the award of large-scale electricity storage facilities, biomass electric power generation as well as conventional mega solar projects this term. In electricity storage, we are aiming for energy management business in addition to EPC and are preparing for entry into offshore wind power projects.

In Life Science, we will increase our efforts in middle-molecule, polymers, regenerative medical care, regenerative medicine and biotechnology, as well as conventional low molecular medicine production facilities. We have recently invested in the development of peptide-based medicine, a type of middle-molecule medicine. Other than EPC, we wish to proceed with these projects, if only in small measures at the start.

Please refer to Page 5.
This page describes digital technology innovation and is divided into two categories, companywide digitization on the left and the development of new business models on the right. Alliances and cooperation with partners will be key in both digital categories. We will expand our partnering in accordance with this slide.

Please refer to Page 6 for forecasts of consolidated orders this term.
Our forecast for the total amount of orders awarded is 800 billion yen, of which 150 billion yen is from the global environmental engineering business and 650 billion JPY is from energy, including 400 billion yen from LNG / Gas and 250 billion yen from Refinery, Chemical and Metal.

The 400 billion yen from LNG / Gas is based on the forecast that we are awarded a large scale project in either the U.S. or Mozambique as indicated earlier. If two or more projects are awarded, this amount will increase significantly.

In Refinery, Chemical and Metal, we expect domestic projects and the award of a large-scale petrochemical project overseas as previously stated. The figure of 250 billion yen will be exceeded if copper smelter project in Indonesia is included, but this project is positioned as back-up this term.

More orders have been received in the environment business, mainly in the new energy sector, and the 150 billion yen quoted is promising considering multiple projects are at an advanced stage.

Based on the above, we expect that the 800 billion yen forecast will be achievable this term.

Earnings portfolio transition is referenced on Page 6. In the Mid-term Management Plan released last August, a target was set to increase the ratio of new orders awarded in environment business from 15%, the average set in the previous Mid-term Management Plan, to 30% in FY2020. This term the ratio is 19%, indicating the steady growth of environmental business in accordance with the current Mid-term Management Plan.

Finally, business topics are shown from Page 7 onwards.

That concludes our presentation.

Thank you very much.

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