Daido Steel Co. Ltd.

Daido Steel Co., Ltd.
FY2023 1st Quarter Financial Results Briefing
Q&A Session (Summary)

Date : Judy 28, 2023 (Friday)
Respondents: Tsukasa Nishimura, Representative Executive Director, Executive Vice President
Akihito Kajita, Director, Managing Executive Officer
Tatsushi Iwata, Director, Managing Executive Officer
Takashi Kano, Executive Officer and General Manager, Corporate Planning Dept.

Q. Could you give us some background on the outlook for each segment?

A. The specialty steel segment is expected to exceed the forecast slightly, thanks to strong sales in line with recovery in the automobile industry. In the high-performance and magnetic materials segment, the inventory adjustment phase for stainless steel is more lingering than was initially expected. Although we expect the recovery of this segment to begin in the second half of this fiscal year, we have no choice but to forecast that earnings will be a bit weak for the first half. Among stainless steel products, those for semiconductor-making equipment are not expected to rebound strongly, at least not during the current fiscal year, However, we do expect that those for automobiles, which account for 40% of the total of our stainless steel products, will recover from the second quarter onward, although lag behind specialty steel products, due to their long supply chain. Magnetic materials are also showing signs of recovery. In the segment providing steel for automobile and industrial equipment parts, the figures for precision castings and die forging are at low levels, but the number of orders for open-die forgings remains very strong, and considering the production lead time for these items, we expect that this segment will begin to recover in the second quarter of this fiscal year. The engineering segment is progressing as was projected, throughout the whole fiscal year.

Q. You said that the recovery of stainless steel sales would be delayed due to its long supply chain. Is there anything unusual that might explain why it is taking longer than expected this time? Also, how much has the volume of stainless steel shipments decreased?

A. One of the reasons for the delayed recovery of stainless steel sales is that inventories were extremely high within the supply chain. Shipment volume is down about 20% from the first half of the previous fiscal year.

Q. With regard to the automotive and industrial equipment parts segment, if the first quarter conditions for precision castings and die forgings continue, it seems unlikely that segment profits will increase thereafter. Would you explain the actual situation, in this regard?

A. We expect a slight recovery in demand for precision castings in the second quarter of this fiscal year, but it will be difficult to achieve a major recovery. On the other hand, we anticipate shipments of die forgings to rebound, because demand for passenger car and truck-related products is now on the rise. In addition, the number of orders for open-die forgings continues to remain strong, so it is expected that shipment levels will be higher in the second quarter. Therefore, in the second quarter we expect an increase in operating income for the segment as a whole.

Q. The performance of the high-performance and magnetic materials segment seemed weak in the first quarter of this fiscal year. Will the profit level that was anticipated at the beginning of the term be achieved, on the strength of the sales volume of products’ returning in the second quarter and thereafter, mainly for automobile-related products? Or is there a risk of a downward profit swing due to the longer-than-expected inventory adjustment in stainless steel for semiconductor-making equipment? What is your overall view about this?

A. We expect to achieve the initial plan, as demand for automobile-related stainless steel products recovers, but we believe there is some risk with regard to semiconductor-making equipment-related stainless steel. If that recovery is delayed, there is still a slight downside risk. However, we expect an upward swing in the specialty steel segment, because automobile production is likely to increase, and therefore we assume that the company's overall profit to be in line with the initial plan.

Q. I understand that the number of orders for open-die forgings is quite strong. What is your estimate of how much your sales can grow, in the face of your production capacity constraints?

A. Taking into account the increase in the number of orders, we estimate a 10-15% increase of sales in the second quarter, as compared with the first quarter. Although recently the percent of superalloy steel in open-die forging products has been increasing, the shipment of superalloys has declined due to low production efficiency and the long production process. Because of the launch of new special melting equipment and improvements in the operation of the existing production facilities, we believe that we will be able to increase our production capacity in a manner that will not affect the shipment of open-die forgings from the second quarter onward, even if the percentage of superalloys in these products increases.

Q. Since in the past the automotive and industrial equipment parts segment continued to perform well, the operating income of 500 million yen for the first quarter of this fiscal year seems a little low. As a background to this, was the high level of profit posted by open-die forgings was offset by the negative impact of precision castings and die forgings? Or, is it the case that –- although it is true that precision castings and die forgings held down the profit level – in fact the sales of open-die forgings themselves were lower than expected, and that this resulted in keeping the operating profit to only 500 million yen?

A. Because precision casting and die forging sales volumes are down, their contributions to this segment’s operating incomes are also down, as compared to last year. Open-die forgings also saw a decrease in profit due to a slightly lower throughput caused by the long production lead time. In other words, both of these factors impacted and contributed to the decline in the operating income of this segment.

Q. While shipments of specialty steel to finished-car manufacturers in Japan are recovering, are you concerned that overall shipments of specialty steel products will not grow sufficiently because of the drop in production by Japanese automakers in China?

A. The recovery in sales of specialty steel products is attributable to the return of Japanese automakers' sales volume in Japan and the U.S. However, in China, Chinese automakers are gaining ground with the expansion of NEVs, and the share of Japanese cars in the Chinese market is declining. If this trend continues and expands in the future, there is concern that there will not be sufficient increases in the sale of specialty steel products, in spite of the recovery in automobile production around the world. However, at this point, our original plan is moving forward as expected, and we will evaluate the impact of events in China when we review our plan for the second half of the fiscal year.

Q. Please explain the progress of your plans for improved profitability and increased base prices.

A. Although we were not able to raise the sales prices of our products satisfactorily in the first quarter of FY2022, the introduction of energy surcharges in the second half of the previous fiscal year and other measures helped stabilize our profit margins to some extent in the second half of that fiscal year. As a result, as compared with the same period during the previous year, we were able to raise the sales prices of our products sufficiently to offset the effect of the steep rises of raw materials and fuel prices. As compared with the fourth quarter of FY2022, there is almost no difference in profit margins, except for the Slide Gap, and the improvement in profit margins during the second half of the previous fiscal year is still in place in the first quarter of FY2023. However, since the absolute sum of profits has not yet been fully realized, amid sluggish growth in sales volumes, we believe that further profit growth can still be expected in line with sales volume growth, from the second quarter onward.

Q. Will the operation of the new special melting equipment at the Shibukawa Plant contribute immediately to an increased production volume, from the second quarter, or will there be a time lag due to the process of obtaining customer approval for the equipment? I understand that new special melting equipment is scheduled to start up at the Chita Plant in the next fiscal year. Please explain the timeframe and how the effects of these investments will be reaped.

A. It will take about six months to obtain customer approval for the special melting equipment installed at the Shibukawa Plant, so commercial operation will start in December or later. Until then, for about six months, we will manage to produce what we need by improving the efficiency of the existing equipment. After that, the new equipment will hopefully be used to increase production to meet expanded sales. In addition, the special melting equipment to be installed at the Chita Plant will start operation at the end of FY2024, after which production will be integrated in the Nagoya area, which will shorten lead times and improve production costs.