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On **September 6, 2019**, Kumiai Chemical Industry Co., Ltd. announced earnings results for Q3 FY10/19.

Cumulative (JPYmn)	FY10/18				FY10/19			FY10/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.
Sales	19,058	54,179	74,583	96,846	24,269	58,471	79,412	74.2%	107,000
YoY	52.9%	42.3%	28.8%	24.5%	27.3%	7.9%	6.5%		10.5%
Gross profit	5,109	13,631	18,299	23,611	6,321	14,777	19,792		
YoY	90.6%	60.8%	34.1%	25.2%	23.7%	8.4%	8.2%		
GPM	26.8%	25.2%	24.5%	24.4%	26.0%	25.3%	24.9%		
SG&A expenses	4,236	8,840	13,253	18,030	4,195	9,171	13,544		
YoY	68.5%	58.9%	31.5%	19.4%	-1.0%	3.7%	2.2%		
SG&A ratio	22.2%	16.3%	17.8%	18.6%	17.3%	15.7%	17.1%		
Operating profit	872	4,792	5,046	5,582	2,127	5,607	6,248	102.4%	6,100
YoY	422.2%	64.4%	41.5%	48.3%	143.9%	17.0%	23.8%		9.3%
OPM	4.6%	8.8%	6.8%	5.8%	8.8%	9.6%	7.9%		5.7%
Recurring profit	1,371	5,604	6,612	8,074	2,480	6,479	7,527	92.9%	8,100
YoY	2.9%	23.9%	3.3%	8.5%	80.9%	15.6%	13.8%		0.3%
RPM	7.2%	10.3%	8.9%	8.3%	10.2%	11.1%	9.5%		7.6%
Net income	1,125	4,454	5,302	4,706	1,839	4,663	5,547	99.1%	5,600
YoY	10.6%	33.2%	-21.5%	-35.1%	63.5%	4.7%	4.6%		19.0%
Net margin	5.9%	8.2%	7.1%	4.9%	7.6%	8.0%	7.0%		5.2%

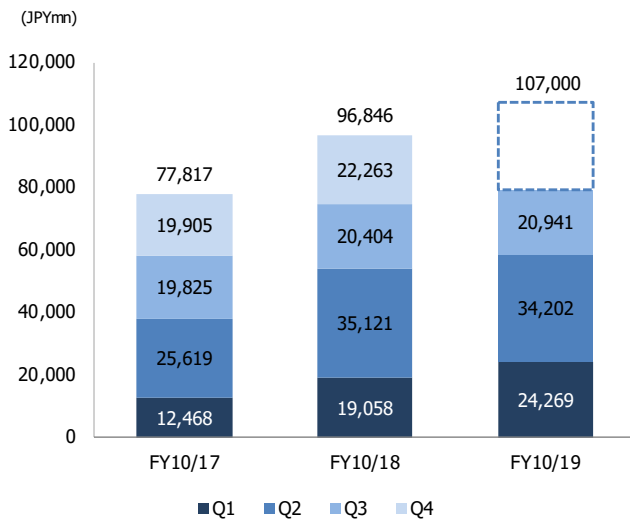
  

Quarterly (JPYmn)	FY10/18				FY10/19		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	19,058	35,121	20,404	22,263	24,269	34,202	20,941
YoY	52.9%	37.1%	2.9%	11.8%	27.3%	-2.6%	2.6%
Gross profit	5,109	8,522	4,668	5,312	6,321	8,456	5,015
YoY	90.6%	47.0%	-9.7%	1.8%	23.7%	-0.8%	7.4%
GPM	26.8%	24.3%	22.9%	23.9%	26.0%	24.7%	23.9%
SG&A expenses	4,236	4,604	4,413	4,777	4,195	4,976	4,373
YoY	68.5%	51.0%	-2.3%	-4.8%	-1.0%	8.1%	-0.9%
SG&A ratio	22.2%	13.1%	21.6%	21.5%	17.3%	14.5%	20.9%
Operating profit	872	3,920	254	536	2,127	3,480	641
YoY	422.2%	42.6%	-60.9%	169.3%	143.9%	-11.2%	152.4%
OPM	4.6%	11.2%	1.2%	2.4%	8.8%	10.2%	3.1%
Recurring profit	1,371	4,233	1,008	1,462	2,480	3,999	1,048
YoY	2.9%	32.7%	-46.4%	40.7%	80.9%	-5.5%	4.0%
RPM	7.2%	12.1%	4.9%	6.6%	10.2%	11.7%	5.0%
Net income	1,125	3,329	848	-596	1,839	2,824	884
YoY	10.6%	43.0%	-75.1%	-	63.5%	-15.2%	4.2%
Net margin	5.9%	9.5%	4.2%	-	7.6%	8.3%	4.2%

Source: Shared Research based on company data

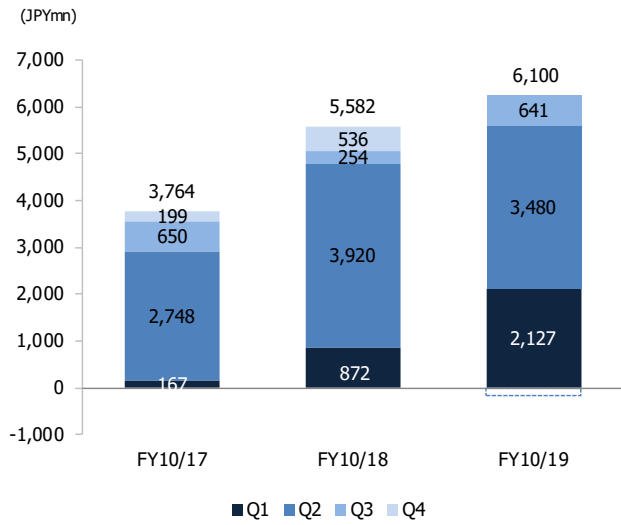
Note: Figures may differ from company materials due to differences in rounding methods.

### Sales (quarterly)



Source: Shared Research based on company data

### Operating profit (quarterly)



Source: Shared Research based on company data

Cumulative (JPYmn)	FY10/17				FY10/18				FY10/19		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	12,468	38,087	57,912	77,817	19,058	54,179	74,583	96,846	24,269	58,471	79,412
YoY	-24.0%	-7.6%	15.7%	24.4%	52.9%	42.3%	28.8%	24.5%	27.3%	7.9%	6.5%
Agricultural Chemicals	10,810	34,703	47,879	60,636	13,268	40,608	54,131	68,147	17,450	44,088	56,846
YoY	-	-	7.2%	8.6%	22.7%	17.0%	13.1%	12.4%	31.5%	8.6%	5.0%
% of total	86.7%	91.1%	82.7%	77.9%	69.6%	75.0%	72.6%	70.4%	71.9%	75.4%	71.6%
Fine Chemical	556	1,094	5,648	10,937	4,119	9,200	14,370	19,466	5,136	10,180	15,759
YoY	-	-	182.5%	387.6%	640.8%	741.0%	154.4%	78.0%	24.7%	10.7%	9.7%
% of total	4.5%	2.9%	9.8%	14.1%	21.6%	17.0%	19.3%	20.1%	21.2%	17.4%	19.8%
Others	1,102	2,290	4,385	6,243	1,671	4,370	6,082	9,233	1,683	4,204	6,806
YoY	-	-	28.5%	39.4%	51.6%	90.8%	38.7%	47.9%	0.7%	-3.8%	11.9%
% of total	8.8%	6.0%	7.6%	8.0%	8.8%	8.1%	8.2%	9.5%	6.9%	7.2%	8.6%
Operating profit	167	2,915	3,565	3,764	872	4,792	5,046	5,582	2,127	5,607	6,248
YoY	-86.0%	-14.3%	50.2%	66.0%	422.2%	64.4%	41.5%	48.3%	143.9%	17.0%	23.8%
OPM	1.3%	7.7%	6.2%	4.8%	4.6%	8.8%	6.8%	5.8%	8.8%	9.6%	7.9%
Agricultural Chemicals	401	3,094	3,652	3,554	836	4,452	4,415	4,992	1,900	5,122	5,550
YoY	-	-	-	46.8%	108.5%	43.9%	20.9%	40.5%	127.3%	15.0%	25.7%
OPM	3.7%	8.9%	7.6%	5.9%	6.3%	11.0%	8.2%	7.3%	10.9%	11.6%	
% of total	75.2%	88.1%	82.5%	71.6%	72.3%	82.1%	73.9%	73.0%	78.2%	82.1%	76.2%
Fine Chemical	21	40	327	858	319	681	1,117	1,249	411	690	1,185
YoY	-	-	-	2157.9%	1419.0%	1602.5%	241.6%	45.6%	28.8%	1.3%	6.1%
OPM	3.8%	3.7%	5.8%	7.8%	7.7%	7.4%	7.8%	6.4%	8.0%	6.8%	
% of total	3.9%	1.1%	7.4%	17.3%	27.6%	12.6%	18.7%	18.3%	16.9%	11.1%	16.3%
Others	111	377	447	552	2	292	444	599	119	426	548
YoY	-	-	-	-7.1%	-98.2%	-22.5%	-0.7%	8.5%	5850.0%	45.9%	23.4%
OPM	10.1%	16.5%	10.2%	8.8%	0.1%	6.7%	7.3%	6.5%	7.1%	10.1%	
% of total	20.8%	10.7%	10.1%	11.1%	0.2%	5.4%	7.4%	8.8%	4.9%	6.8%	7.5%
Company-wide expenses	-366	-596	-862	-1,200	-285	-633	-930	-1,259	-303	-631	-1,035
Quarterly (JPYmn)	FY10/17				FY10/18				FY10/19		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total sales	12,468	25,619	19,825	19,905	19,058	35,121	20,404	22,263	24,269	34,202	20,941
YoY	-24.0%	3.3%	123.8%	59.5%	52.9%	37.1%	2.9%	11.8%	27.3%	-2.6%	2.6%
Agricultural Chemicals	10,810	23,893	13,176	60,636	13,268	27,340	13,523	14,016	17,450	26,638	12,758
YoY	-	-	-	-	22.7%	14.4%	2.6%	-76.9%	31.5%	-2.6%	-5.7%
% of total	87%	93%	66%	305%	70%	77.8%	66.3%	63.0%	72%	77.9%	60.9%
Fine Chemical	556	538	4,554	10,937	4,119	5,081	5,170	5,096	5,136	5,044	5,579
YoY	-	-	-	-	640.8%	844.4%	13.5%	-53.4%	24.7%	-0.7%	7.9%
% of total	4%	2%	23%	55%	22%	14.5%	25.3%	22.9%	21%	14.7%	26.6%
Others	1,102	1,188	2,095	6,243	1,671	2,699	1,712	3,151	1,683	2,521	2,602
YoY	-	-	-	-	51.6%	127.2%	-18.3%	-49.5%	0.7%	-6.6%	52.0%
% of total	9%	5%	11%	31%	9%	7.7%	8.4%	14.2%	7%	7.4%	12.4%
Operating profit	167	2,748	650	199	872	3,920	254	536	2,127	3,480	641
YoY	-86.0%	24.3%	-	-	422.2%	42.6%	-60.9%	169.3%	143.9%	-11.2%	152.4%
OPM	1.3%	10.7%	3.3%	1.0%	4.6%	11.2%	1.2%	2.4%	8.8%	10.2%	3.1%
Agricultural Chemicals	401	2,693	558	3,554	836	3,616	-37	577	1,900	3,222	428
YoY	-	-	-	-	108.5%	34.3%	-	-83.8%	127.3%	-10.9%	-
OPM	3.7%	11.3%	4.2%	5.9%	6.3%	13.2%	-0.3%	4.1%	10.9%	12.1%	
% of total	75.2%	90.4%	61.0%	71.6%	72.3%	84.7%	-	66.8%	78.2%	84.6%	-
Fine Chemical	21	19	287	858	319	362	436	132	411	279	495
YoY	-	-	-	-	1419.0%	1805.3%	51.9%	-84.6%	28.8%	-22.9%	13.5%
OPM	3.8%	3.5%	6.3%	7.8%	7.7%	7.1%	8.4%	2.6%	8.0%	5.5%	
% of total	3.9%	0.6%	31.4%	17.3%	27.6%	8.5%	79.1%	15.3%	16.9%	7.3%	47.4%
Others	111	266	70	552	2	290	152	155	119	307	122
YoY	-	-	-	-	-98.2%	9.0%	117.1%	-71.9%	5850.0%	5.9%	-19.7%
OPM	10.1%	22.4%	3.3%	8.8%	0.1%	10.7%	8.9%	4.9%	7.1%	12.2%	
% of total	20.8%	8.9%	7.7%	11.1%	0.2%	6.8%	27.6%	17.9%	4.9%	8.1%	11.7%
Company-wide expenses	-366	-230	-265	-4,765	-285	-348	-297	-328	-303	-328	-404

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Q3 FY10/19 results (out September 6, 2019)

Results for cumulative Q3 FY10/19 (November 2018–July 2019)

- ▷ Sales: JPY79.4bn (+6.5% YoY)
- ▷ Operating profit: JPY6.2bn (+23.8% YoY)
- ▷ Recurring profit: JPY7.5bn (+13.8% YoY)
- ▷ Net income\*: JPY5.5bn (+4.6% YoY)
- ▷ \*Net income attributable to owners of parent
- ▷ Sales and profit rose YoY with expanded sales of core product Axeev
- ▷ Overseas sales ratio: 40.5%

### Agricultural Chemicals and Agriculture-Related Businesses

Results for cumulative Q3 FY10/19 (November July–April 2019)

- ▷ Sales: JPY 56.8bn (+5.0% YoY)
- ▷ Operating profit: JPY5.6bn (+25.7% YoY)

Domestic sales:

- ▷ In farmland products, among herbicides for rice paddies, full-scale sales of Effeeda started.
- ▷ Rice pest insecticides sales were up YoY with the launch of Pyralalto agent and growth in new mixture products like Isotianil.

Corporate marketing

- ▷ Sales of germicides for fruits and vegetables including Fantasista, a self-developed germicide for gardening held steady.

Overseas sales:

- ▷ Overall, overseas sales were up sharply YoY.
- ▷ Shipments of the core product Axeev grew dramatically in North America. In cumulative Q3, sales of Axeev were JPY17.6bn, roughly in line with plan, according to the company.

### Fine Chemicals Business

Results for cumulative Q3 FY10/19 (November 2018–July 2019)

- ▷ Sales: JPY15.8bn (+9.7% YoY)
- ▷ Operating profit: JPY1.2bn(+6.1% YoY)

Kumiai Chemical acquired most of the Fine Chemicals operations from Ihara Chemical and its consolidated subsidiaries. In this segment the company mainly develops and sells chlorotoluene- and chloroxylene-based chemical products; fine chemicals, including various bismaleimides used in electronic materials and high-heat-resistant resins; polyurethane curing agents, which are raw materials for waterproof materials; fungicides and anti-mold agents; industrial chemicals such as cleaning agents; and Styrofoam.

- ▷ The company saw strong demand for its chloroxylene-based chemical products used in the production of high-performance resins and aramid fibers like those being produced by Iharanikkei Chemical (Thailand), a joint venture between Kumiai Chemical and consolidated subsidiary Iharanikkei Chemical Industry.

- ▷ In the area of fine chemicals, the company saw strong sales of bismaleimides used in electronic materials and heat-resistant resins thanks to growing market demand. Sales of polyurethane curing agents, used in waterproof materials, were up. The company's contract processing business performed strongly. Sales of industrial chemicals (including cleaning agents and chemicals used in paper manufacturing) lagged YoY. Sales of styrene foam (used in packaging, consumer electronic parts, and insulation materials used in construction) were bolstered by both rising demand.

## Other Businesses

Results for cumulative Q3 FY10/19 (November 2018–July 2019)

- ▷ Sales: JPY6.8bn (+11.9% YoY)
- ▷ Operating profit: JPY548mn (+23.4% YoY)
- ▷ Other Businesses comprise mainly leasing, electricity generation and sales, construction, printing, logistics, and information services.
- ▷ Leasing business sales were in line with Q1 FY10/18 as the company continued to effectively utilize owned properties.
- ▷ The electric power generation and sales business logged higher sales YoY, due to the completion of repairs to electric power facilities that were damaged by a typhoon last year.
- ▷ Sales in the construction business were up slightly YoY, and orders were solid.

## Company forecast for FY10/19

(JPYmm)	FY10/16			FY10/17			FY10/18			FY10/19		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
<b>Sales</b>	<b>41,213</b>	<b>21,336</b>	<b>62,549</b>	<b>38,087</b>	<b>39,730</b>	<b>77,817</b>	<b>54,179</b>	<b>42,667</b>	<b>96,846</b>	<b>59,700</b>	<b>47,300</b>	<b>107,000</b>
YoY	6.5%	-4.9%	2.3%	-7.6%	86.2%	24.4%	42.3%	7.4%	24.5%	10.2%	10.9%	10.5%
CoGS	32,527	17,653	50,180	29,608	29,346	58,954	40,548	32,687	73,235	43,694	-	-
<b>Gross profit</b>	<b>8,686</b>	<b>3,683</b>	<b>12,369</b>	<b>8,479</b>	<b>10,384</b>	<b>18,863</b>	<b>13,631</b>	<b>9,980</b>	<b>23,611</b>	<b>14,777</b>	-	-
GPM	21.1%	17.3%	19.8%	22.3%	26.1%	24.2%	25.2%	23.4%	24.4%	24.8%	-	-
SG&A expenses	5,285	4,817	10,102	5,564	9,535	15,099	8,840	9,190	18,030	9,171	-	-
SG&A ratio	12.8%	22.6%	16.2%	14.6%	24.0%	19.4%	16.3%	21.5%	18.6%	15.4%	-	-
<b>Operating profit</b>	<b>3,401</b>	<b>-1,134</b>	<b>2,267</b>	<b>2,915</b>	<b>849</b>	<b>3,764</b>	<b>4,792</b>	<b>790</b>	<b>5,582</b>	<b>5,607</b>	<b>493</b>	<b>6,100</b>
YoY	-3.8%	-	-39.1%	-14.3%	-	66.0%	64.4%	-6.9%	48.3%	17.0%	-37.6%	9.3%
OPM	8.3%	-	3.6%	7.7%	2.1%	4.8%	8.8%	1.9%	5.8%	9.4%	1.0%	5.7%
<b>Recurring profit</b>	<b>4,359</b>	<b>119</b>	<b>4,478</b>	<b>4,523</b>	<b>2,918</b>	<b>7,441</b>	<b>5,604</b>	<b>2,470</b>	<b>8,074</b>	<b>6,479</b>	<b>1,621</b>	<b>8,100</b>
YoY	-2.4%	-96.7%	-44.5%	3.8%	2352.1%	66.2%	23.9%	-15.4%	8.5%	15.6%	-34.4%	0.3%
RPM	10.6%	0.6%	7.2%	11.9%	7.3%	9.6%	10.3%	5.8%	8.3%	10.9%	3.4%	7.6%
<b>Net income</b>	<b>3,073</b>	<b>350</b>	<b>3,423</b>	<b>3,345</b>	<b>3,907</b>	<b>7,252</b>	<b>4,454</b>	<b>252</b>	<b>4,706</b>	<b>4,663</b>	<b>937</b>	<b>5,600</b>
YoY	-4.2%	-89.6%	-47.8%	8.9%	1016.3%	111.9%	33.2%	-93.6%	-35.1%	4.7%	271.8%	19.0%
Net margin	7.5%	1.6%	5.5%	8.8%	9.8%	9.3%	8.2%	0.6%	4.9%	7.8%	2.0%	5.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

For FY10/19, the company forecasts full-year sales of JPY107.0bn (+10.5% YoY), an operating profit of JPY6.1bn (+9.3% YoY), recurring profit of JPY8.1bn (+0.3% YoY), and net income of JPY5.6bn (+19.0% YoY). There are no changes to the forecast as of Q3 FY10/19 earnings release.

In the mainstay Agricultural Chemicals and Agriculture-Related Businesses, Kumiai Chemical will step up marketing in the domestic market (which is essentially trending sideways) to establish closer ties with the end user (i.e., farming households), and maximize early sales of the new herbicide for rice paddies (Effeeda) that it will be rolling out in 2019. To strengthen marketing activities, the company has established the Core-Farmers Promotion Section under its Marketing Department, and signaled its intention to collaborate with Zen-Noh on a support structure for domestic farmers, who manage increasingly large acreages. Overseas, the company will focus on increasing sales of its herbicide for field crops (Axeev) by both increasing the number of countries in which it is sold and the number of crops to which it is applied. Likewise, at its Fine Chemical Business, the company is looking to develop new customers and expand business domains.

**Factors affecting sales growth: Axeev remains the driver**

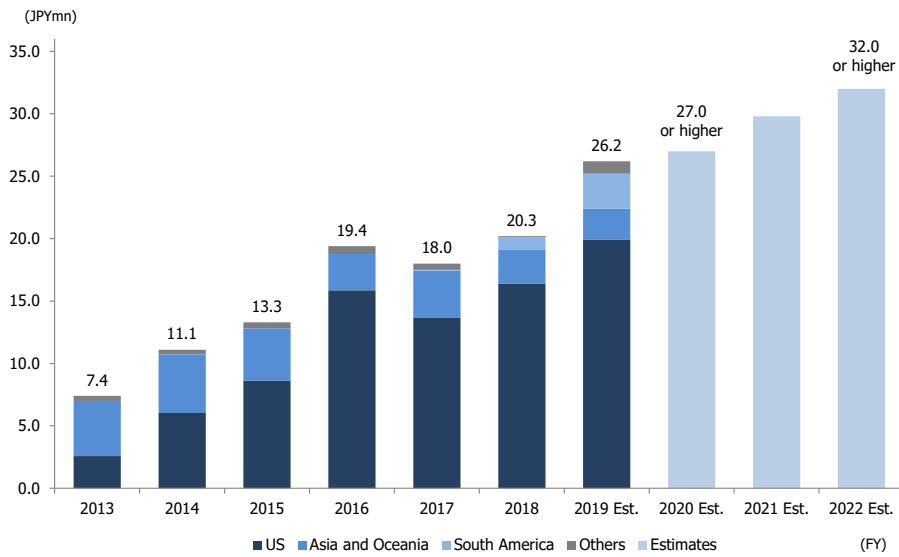
- ▷ Kumiai Chemical forecasts a JPY10.2bn YoY increase in sales in FY10/19, breaking down into increases of roughly JPY6.2bn in the Agricultural Chemicals and Agriculture-Related Businesses and about JPY3.6bn in the Fine Chemicals Business. Most of the sales growth is expected to come from an increase in overseas sales of Axeev. The company's full-year sales forecast for Axeev is JPY26.2bn (+JPY5.9bn YoY). At the end of Q3, sales were JPY17.6bn, 67% of the full-year target. While progress is slightly delayed due to some slippage in sales timing and the climate in North America, the company said sales were largely in line with its forecasts.
- ▷ The company expects sales growth in the Agricultural Chemicals and Agriculture-Related Businesses to be driven in large part by an expansion in sales of Axeev on a projected rise in demand, primarily in North America. In FY10/19, sales continue to be driven by North America and Argentina, but the company also looks to expand sales into countries such as India and Brazil. In Brazil, however, there are some uncertainties regarding the timing of launch under the country's registration system for agrochemicals, but the company says that the registration process appears to be making progress and that Brazil may begin contributing to sales as early as Q4.
- ▷ In addition, it expects the domestic launch of Effeeda (paddy rice herbicide developed in-house) in FY10/19 to contribute to sales growth. On the downside, it anticipates sales of Nominee falling in Asia on competition from generic agrochemicals. The company's full-year FY10/19 plan calls for sales of Nominee to reach roughly JPY3.0bn, with production in India expected to offer a full-fledged response to the challenges posed by generics starting FY10/20.
- ▷ On the whole, however, the company still expects Axeev's sales growth mainly in North and South American markets to be the main driver of sales.

**Factors affecting profit growth: Despite expansion in Axeev sales, operating profit growth to remain in single digits on higher SG&A expenses stemming from an increase in consolidated subsidiaries**

Kumiai Chemical forecasts a JPY500mn YoY increase in operating profit in FY10/19. Although it expects gross profit to rise roughly JPY1.8bn in tandem with sales expansion in the Agricultural Chemicals and Agriculture-Related Businesses driven by Axeev sales growth, it anticipates SG&A expenses climbing roughly JPY1.3bn on higher R&D expenses and an increase for expenses of newly consolidated subsidiaries. Consequently, the company expects operating profit to increase only around JPY500mn.

The company is particularly focused on rapidly starting up Iharanikkei Chemical (Thailand) to take advantage of a market environment characterized by robust aramid fiber demand. Hence, despite higher sales, it expects related upfront spending to weigh down on earnings in FY10/19. As the FY10/19 forecasts are the first forecasts compiled by the company since it merged with Ihara Chemical to integrate manufacturing and sales, Shared Research believes that Kumiai Chemical has adopted conservative targets across the board for new subsidiaries in the Fine Chemicals Business.

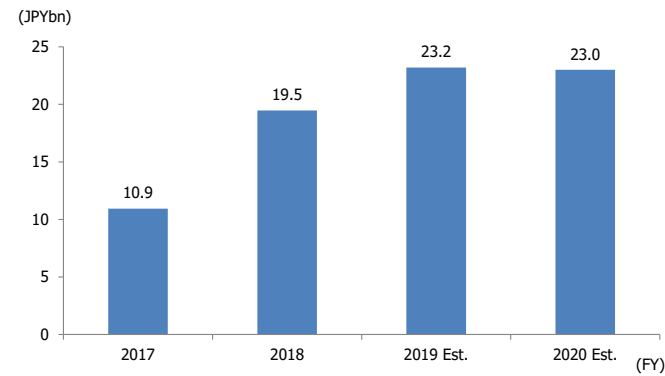
## Consolidated sales of Axeev and trends in markets where Axeev is sold



2013	2014	2015	2016	2017	2018	2019 Est.	2020 Est.
US	Saudi Arabia		Turkey	Mexico	New Zealand	India	Chile
Australia	Canada			Argentina		China	
South Africa	Japan					South Korea	
						Brazil	
						Bolivia	

Source: Shared Research based on company data

## Sales of Fine Chemicals Business



Source: Shared Research based on company data

This note is the most recent addition to the [full report](#).

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at <http://www.sharedresearch.jp>.

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