

Mar 16, 2017

## R&I Assigns BBB/a-2, Stable: KH Neochem Co., Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** KH Neochem Co., Ltd.  
**Issuer Rating:** BBB, Assigned  
**Rating Outlook:** Stable

**Commercial Paper:** a-2, Assigned

### RATIONALE:

KH Neochem Co., Ltd., formerly Kyowa Hakko Chemical Co., Ltd., develops three businesses based on its unique technologies and know-how: the basic chemicals business, which offers solvents, plasticizer raw materials, etc., the performance materials business, which handles refrigeration lubricants raw materials, cosmetic raw materials, etc., and the electronic materials business centered on high-purity solvents.

Basic chemicals account for about half of its sales, while, on the profit front, the degree of contribution from three performance chemicals, refrigeration lubricants raw materials, cosmetic raw materials and high-purity solvents for electronic materials, is notably high. Although the market size of all these products is small, demand is expanding and the number of suppliers is limited. Under close relationships with leading customers, KH Neochem pursues research and development activities. Integrated production from raw materials is also a source of its competitive strength. R&I expects the company to continue generating earnings commensurate with the added value of its products.

Domestic demand for basic chemicals, such as butanol and its derivatives, has peaked. Nevertheless, if excluding the P/L impact of a time lag between receipt and shipment of inventory, their profitability, though high levels cannot be expected, is relatively stable because a naphtha-linked formula is applied to selling prices. The company plans to improve earnings through cost reductions.

The size of equity capital is not large. This is because KH Neochem bought back preferred shares and made sizable dividend payments before it was listed on the First Section of the Tokyo Stock Exchange in 2016. While its business scale and investment capacity are not sufficient, the balance between debt and cash flow and the debt-equity structure are at adequate levels for the rating. R&I's assessment factors in its view that the company will accumulate capital steadily on the back of comparatively solid earning and cash flow generating capacities.

KH Neochem has established a Taiwanese joint venture (JV) company to produce isononyl alcohol for use in plasticizer raw materials. The investment amount totals US\$400 million (approximately 50 billion yen) and the commercial start-up is scheduled for 2020. KH Neochem has a 47% stake in the JV, which can stably procure raw materials at a competitive price from JV partner and state-owned company CPC Corp., Taiwan. A finance agreement is to be concluded within this year. KH Neochem plans to finance part of the investment cost with preferred equity investment from Japan Bank for International Cooperation. In R&I's view, the investment in the JV will have only a marginal impact on evaluation of the financial risk.

Increasing awareness across the globe about environmental regulations serves as a tailwind for the company to expand sales of refrigeration lubricants raw materials and plasticizer raw materials. If any changes occur in environmental regulations in the future, the supply-demand structure may be affected. R&I believes, however, it is unlikely for some time that such concerns will materialize.

Based on the above-mentioned factors, R&I has assigned KH Neochem the Issuer Rating and the CP rating of BBB and a-2 respectively. The Rating Outlook is Stable.

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The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "Chemicals". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

**R&I RATINGS:**

**ISSUER:** KH Neochem Co., Ltd. (Sec. Code: 4189)

**Issuer Rating**

**RATING:** BBB, Assigned

**RATING OUTLOOK:** Stable

**R&I RATINGS:**

**ISSUER:** KH Neochem Co., Ltd. (Sec. Code: 4189)

**Commercial Paper**

**RATING:** a-2, Assigned

**ISSUE LIMIT (mn):** JPY 7,000

**SUPPORT:** Unsecured

**ISSUER RATING:** BBB

**RATING OUTLOOK:** Stable

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