

The Defensive Compounder Inside a Cyclical Sector

- Non-resource earnings reduce commodity volatility across global trading house cycles.
- Turnaround execution creates repeatable growth beyond traditional trading margins.
- Bloomberg consensus recommend ITOCHU19 with a BUY, TP of THB 7.5 (¥2,250, JYP/THB at 0.2).

Structural Earnings Transition: Commodity Beta to Consumption Exposure

Itochu is transitioning from commodity-driven earnings toward consumption-linked supply chain exposure. FY2025 net profit reached ~¥880bn, with FY2026 guidance near ~¥900bn. For 9M FY2026, net profit reached ~¥705bn (+4% YoY) despite weaker commodity markets. Earnings growth is increasingly driven by food, textile, and consumer distribution platforms, supporting structurally higher earnings quality versus traditional trading house models.

Downside Protection: Non-Resource Earnings Stabilize Cyclical Exposure

The company's non-resource earnings base provides structural downside protection. In Q3 FY2026, Food segment profit increased ~¥16bn YoY, while Textile increased ~¥11.5bn YoY, offsetting softer resource contributions. Dole food supply chains and FamilyMart retail operations provide stable demand-driven earnings. This downstream weighting reduces drawdown risk during commodity downturns and supports sustained high-teens ROE generation.

Growth Engine: Turnaround Execution Creates Asymmetric Earnings Upside

Itochu's turnaround strategy provides structural growth optionality. The ~¥60bn WECARS acquisition could support earnings normalization toward FY2027, subject to integration execution. Historical FamilyMart integration improved supply chain efficiency and reduced food waste by ~10–30%. This hybrid model — combining distressed asset entry with operational transformation — creates repeatable value creation beyond pure trading margin expansion.

Capital Discipline: High Payout Supported by Strong Free Cash Flow

Capital allocation discipline supports long-term shareholder return visibility. Itochu maintains equity ratio near ~40% while sustaining total payout ratio near ~52%. Strong operating cash flow from diversified non-resource businesses supports recurring buybacks and dividend growth. Berkshire Hathaway's ~7–8% ownership reinforces confidence in management discipline and long-term capital return sustainability.

Bloomberg consensus recommend ITOCHU19 with a BUY, TP of THB 7.5

Bloomberg consensus on the parent stock implies DR equivalent fair value near THB 7.5 under current FX assumptions (equivalent to ¥2,250, based on JYP/THB at 0.2). Itochu trades with partial sector discount despite sustained high-teens ROE and improving earnings stability. If non-resource profit contribution continues expanding and ROE remains above ~15%, valuation could gradually re-rate toward global industrial compounder peers. Strong free cash flow and shareholder returns support downside protection, while earnings quality improvement supports medium-term multiple expansion potential.

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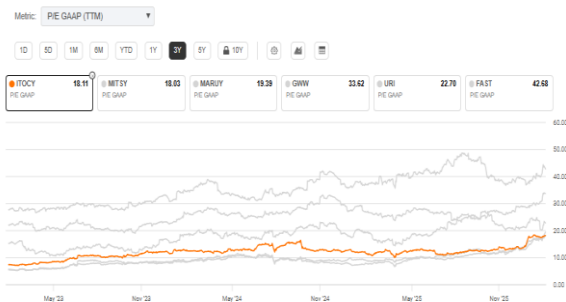
From Commodity Beta to Quality Compounder

Capital Discipline Driving Sogo Shosha Re-Rating

The global trading house sector is **shifting from commodity-cycle beta toward earnings quality, free cash flow durability, and capital return visibility**. Historically, Sogo Shosha traded at low P/B multiples due to volatile resource earnings and inconsistent capital allocation. In the current higher cost-of-capital environment, investors increasingly reward companies demonstrating stable ROE and predictable shareholder returns rather than peak-cycle commodity torque.

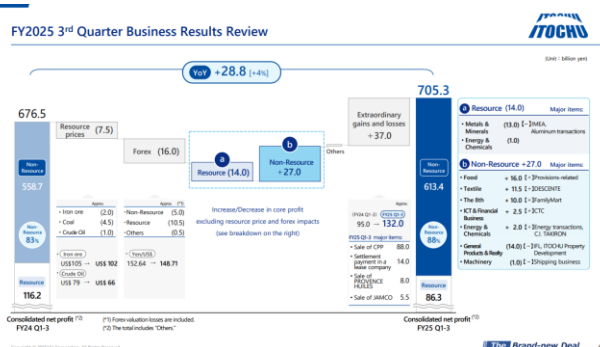
Itochu has been the earliest mover in this transition. For FY2024, the company generated ~¥14.0tr revenue and ~¥880bn net profit, sustaining ROE in the high-teens — among the highest across Japanese conglomerates. **For 9M FY2026, net profit reached ~¥705bn (+4% YoY) despite commodity softness**, supported by non-resource growth. By comparison, major peers typically generate ~40–60% of profit from resource-linked segments during peak cycles, highlighting **Itochu's structurally lower commodity sensitivity**.

Exhibit 1: Valuation Regime Positioning vs Global Cyclical Compounds



Sources: Seeking Alpha

Exhibit 2: Non-Resource Earnings Expansion Offsets Commodity Volatility



Sources: Company Presentation

Structural Earnings Upgrade: Downstream Cash Flow + Capital Return Visibility

Itochu's earnings base has **structurally shifted toward consumer and downstream value chains**, reducing drawdown risk during commodity downturns. In 9M FY2026, Food segment profit reached ~¥82.5bn (+38% YoY), supported by Dole fresh produce and packaged food demand, while Textile delivered stable growth driven by global apparel distribution. These segments benefit from stable demand elasticity and shorter working capital cycles versus upstream resource assets.

This **earnings mix supports stronger capital return capacity**. Itochu maintains balanced trade and investment asset composition with equity ratio near ~40%, allowing simultaneous growth investment and shareholder returns. The company recently **announced additional ¥20bn buyback, lifting total payout ratio to ~52%**. In our view, this positions Itochu closer to global compounder-quality industrial platforms rather than traditional cyclical trading houses, supporting structural premium valuation potential over the cycle.

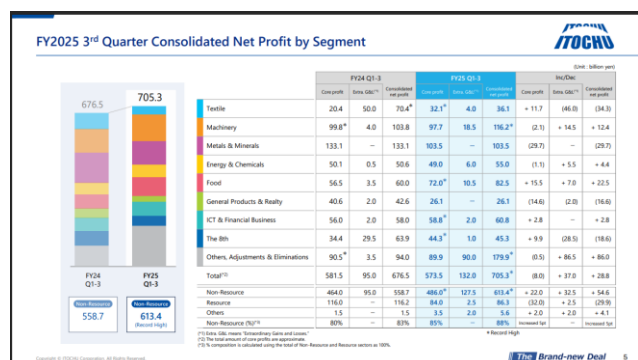
Pillar 1: The Non-Resource Moat (Stability Engine)

Consumer and Food Platforms Provide Structural Downside Protection

Itochu's core structural advantage versus peers is the **scale of its non-resource earnings base**, anchored in consumer distribution, food supply chains, and downstream industrial businesses. While most trading houses remain materially exposed to commodity cycles, Itochu has deliberately shifted profit contribution toward demand-driven segments with lower price volatility sensitivity.

This resilience was evident in FY2026 performance trends. In Q3 FY2026, while resource earnings softened due to weaker commodity pricing, non-resource divisions expanded, with Food segment profit increasing approximately +¥16bn YoY and Textile profit increasing approximately +¥11.5bn YoY. Food performance was driven by higher banana production volumes and packaged food demand via Dole Asia, while Textile benefited from stable global apparel distribution demand. In practical terms, **when oil or metals weaken, Itochu's core businesses continue generating volume-driven earnings growth.**

Exhibit 3: Segment Profit Growth Driven by Consumer and Downstream Businesses



Sources: Company Presentation

Exhibit 4: Itochu Delivers Superior ROE vs Trading House Peers

Name	Mkt Cap (JPY)	ROE	P/E
Average	15.98T	10.54%	21.22
101 ITOCHU CORP	16.96T	13.07%	16.62
102 MITSUBISHI CORP	20.70T	7.25%	27.03
103 MARUBENI CORP	10.27T	11.31%	20.01

Sources: Bloomberg

Lower Earnings Volatility Supports Superior Return Quality

The stability of Itochu's earnings mix directly translates into higher and more consistent return metrics. **Itochu has sustained ROE in the low-teens to ~20% range in recent years**, outperforming Japanese corporate averages and frequently leading the trading house peer group. Importantly, this return profile has been achieved with lower impairment intensity — over the past decade, some peers recorded cumulative write-downs equivalent to ~30–40% of equity base, while **Itochu's impairment history has been materially lower due to disciplined capital allocation and early exit from structurally challenged assets.**

Operational integration further strengthens stability. Following Itochu's full value-chain integration strategy, FamilyMart improved supply chain coordination and inventory management, reducing food waste by approximately 10–30% while improving store-level margin consistency. This creates a stable domestic cash flow anchor that offsets commodity volatility and reinforces Itochu's positioning as a defensive compounder within the sector.

Pillar 2: The “Fixer” Strategy (Turnaround = Structural Alpha Engine)

Distressed Asset Acquisition + Operational Integration = Repeatable Growth Model

Itochu has developed a differentiated growth strategy built around **acquiring underperforming or distressed assets and improving them through operational integration**, supply chain optimization, and capital discipline. Unlike financial investors that rely primarily on financial restructuring, Itochu combines capital deployment with hands-on operational transformation capability, allowing faster earnings normalization and lower execution risk.

The most relevant forward catalyst is **WECARS (formerly Big Motor)**, acquired in 2024 for approximately ¥60bn following governance and operational failures at the legacy entity. The transaction represents a typical Itochu entry profile — distressed valuation entry, immediate operational restructuring potential, and strong synergy with existing automotive distribution and financing ecosystems. Given WECARS’ existing national retail footprint, we expect normalization-driven earnings recovery could begin contributing from FY2027, subject to integration execution, with limited ramp-up risk compared to greenfield investments.

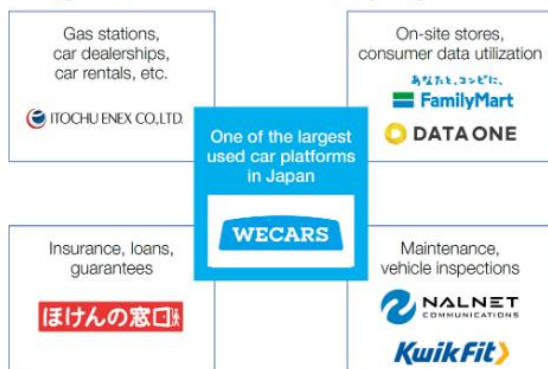
FamilyMart Turnaround Provides Proven Execution Track Record

Itochu’s **historical success with FamilyMart provides strong validation of this strategy**. After increasing ownership and implementing full value-chain integration — including logistics, supplier coordination, and data analytics — FamilyMart improved operational efficiency and profitability. Inventory optimization reduced food waste by approximately 10–30%, while improved product cycle responsiveness supported stronger same-store profitability and margin stability.

This capability effectively positions Itochu as a hybrid between a strategic industrial operator and a private equity sponsor. The company’s portfolio pruning discipline further supports this model — loss-making subsidiaries have been reduced from over 300 historically to fewer than 50 today, **improving consolidated return efficiency**. In our view, this repeatable turnaround capability creates asymmetric growth optionality that is not fully reflected in current valuation multiples

Exhibit 5: WECARS Ecosystem Synergy and Monetization Platform

Strengths of WECARS and Group Synergies



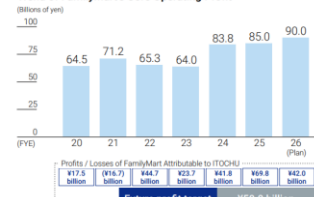
Sources: Itochu.co.jp

Exhibit 6: FamilyMart Integration Validates Itochu’s Fixer Strategy

History of FamilyMart and ITOCHU

Month / Year	Ownership	Major Events
1981		Establishment of FamilyMart Co., Ltd.
1998	29.7%	Acquired shares from Setu Co., Ltd. via Family Corporation Inc. making FamilyMart an equity method affiliate
Sep. 2009	31.6%	(ITOCHU becomes the largest shareholder)
Sep. 2016	33.8%	Establishment of FamilyMart UNY Holdings Co., Ltd.
↓	41.5%	Continued to increase shareholding
Aug. 2018	50.1%	Became a consolidated subsidiary
Nov. 2018		Integration completed with Circle K Sunkus
Nov. 2020	94.7%	Privatization of FamilyMart

Trend of FamilyMart’s Core Operating Profit*



* A profit indicator for operating profit under Japanese GAAP that is calculated by subtracting the cost of sales and selling, general and administrative expenses from gross operating revenue

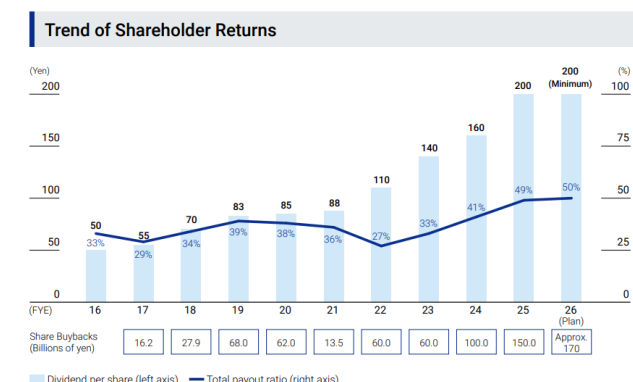
Sources: Itochu’s One Report

Pillar 3: Capital Allocation Discipline + Shareholder Return Premium

Itochu's capital allocation framework has structurally shifted toward shareholder return optimization while maintaining balance sheet flexibility for growth investments. The company recently increased its share buyback program by an additional ¥20bn, bringing total shareholder payout ratio (dividends plus buybacks) to approximately ~52% of earnings — structurally above historical Japanese conglomerate averages and among the highest within the sogu shosha peer group.

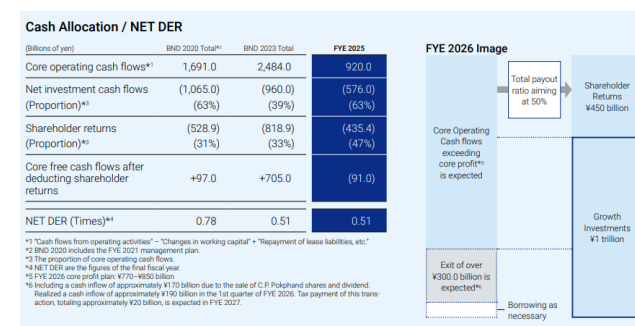
This payout is supported by strong operating cash flow generation across diversified non-resource and downstream businesses. Itochu maintains a balanced asset structure between trade-related and investment-related assets, while sustaining equity ratio near ~40%, allowing simultaneous execution of growth investment and capital return programs. Unlike prior cycles where trading houses prioritized balance sheet expansion, Itochu's framework increasingly resembles global capital allocator models focused on ROE sustainability and free cash flow yield visibility.

Exhibit 7: Shareholder Payout Ratio Trend



Sources: Itochu's One Report

Exhibit 8: Stable Operating Cash Flow Supports Dual Capital Allocation Strategy



Sources: Itochu's One Report

Berkshire Hathaway Ownership Reinforces Governance and Capital Discipline Narrative

Berkshire Hathaway currently holds approximately ~7-8% ownership in Itochu, with regulatory approval to potentially increase exposure toward ~9.9%. While Berkshire acts as a passive investor, its investment philosophy — focusing on durable cash flow businesses, disciplined capital allocation, and shareholder-aligned management — reinforces Itochu's positioning as a quality compounder rather than a cyclical trading proxy.

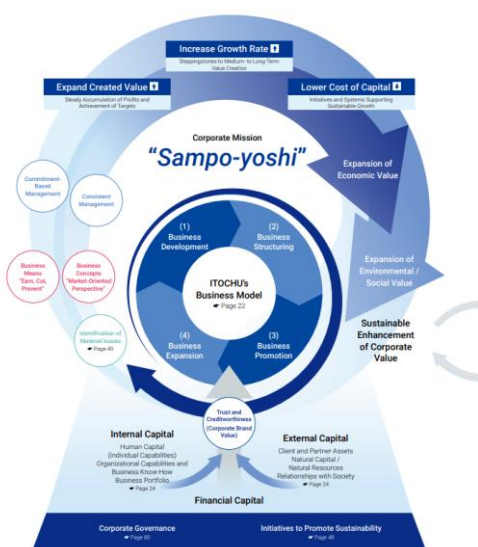
Management incentives are closely tied to profit growth, cash flow generation, and capital efficiency metrics. Itochu has consistently increased dividends and executed recurring buybacks supported by stable core profit growth. In our view, the combination of high payout ratio, strong free cash flow conversion, and long-term institutional shareholder support creates a structural "trust premium," supporting valuation resilience through macro cycles.

Business Model Deep Dive: The Merchant Model

Itochu's core competitive advantage lies in its **merchant-style business model** combining capital allocation, operational control, and global supply chain orchestration. Unlike pure financial investors or pure trading intermediaries, Itochu typically **acquires meaningful stakes and then improves asset productivity** through operational restructuring, procurement optimization, and downstream integration. This "hands-on management" approach allows Itochu to extract value not only from price arbitrage but also from operational margin expansion.

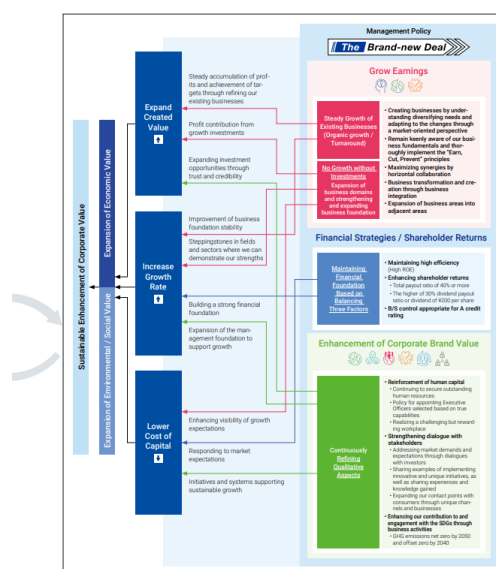
The model is built around a four-stage value creation cycle: business development, structuring, promotion, and expansion. Itochu identifies downstream demand signals first, then builds supply chains around those needs, rather than simply trading upstream supply. This is visible in businesses such as Dole Asia (farm-to-retail food supply integration) and FamilyMart (supplier-to-retail ecosystem control). This structure supports stable cash flow generation and reduces earnings volatility versus upstream commodity-linked business models.

Exhibit 9: Merchant Value Creation Cycle



Sources: Itochu's One Report

Exhibit 10: Integrated Earnings Growth and Capital Discipline Framework



Sources: Itochu's One Report

Portfolio Optimization + Asset Recycling Sustain Long-Term ROE

Itochu continuously recycles capital by **exiting low-return assets and reallocating toward higher-return downstream or consumer-linked businesses**. Over the past two decades, the company reduced loss-making subsidiaries from more than 300 to fewer than 50, materially improving consolidated profitability and capital efficiency. This pruning discipline has supported sustained ROE in the low-teens range and helped Itochu avoid the large-scale impairments historically seen across the sector.

The model also allows Itochu to **scale growth without balance sheet overextension**. Balanced exposure between trade and investment assets, combined with disciplined leverage management, allows Itochu to maintain investment-grade credit profile while executing opportunistic acquisitions. In our view, this hybrid merchant model effectively combines elements of private equity sourcing, industrial operational

improvement, and global trade network leverage — creating a structural competitive moat that is difficult for pure financial investors or pure trading houses to replicate.

Record Profit Growth Driven by Non-Resource Expansion

Itochu's recent earnings trajectory reflects structural improvement in profit quality, **driven primarily by non-resource segment expansion** rather than commodity cycle tailwinds. For FY2025, Itochu delivered net profit of approximately ¥880bn, and for 9M FY2026, net profit reached approximately ¥705bn (+4% YoY), representing a record performance for the April–December period. Management maintains FY2026 net profit guidance near ~¥900bn, with core NP closer to ~¥800bn.

Segment-level trends highlight structural earnings balance. In 9M FY2026, Food segment profit reached approximately ¥82.5bn (+38% YoY), driven by higher banana production volumes and packaged food expansion, while Textile maintained stable growth supported by global apparel distribution demand. Resource-related segments, including metals and energy, experienced softer contributions due to commodity normalization, but **overall earnings resilience was maintained through non-resource profit growth**, reinforcing earnings resilience across macro cycles.

Strong Cash Flow Conversion Supports Capital Return Sustainability

Core operating cash flow was approximately ¥920bn in FY2025, enabling simultaneous growth investment and shareholder return execution. The **company maintains equity ratio near ~40%**, supporting credit rating stability and capital deployment flexibility. This balance sheet structure allows Itochu to fund opportunistic acquisitions while sustaining high payout levels.

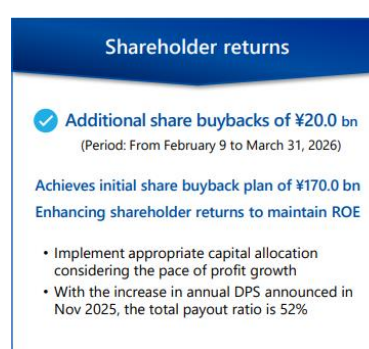
Recent capital return actions reinforce this trajectory. The company announced additional ¥20bn buyback, bringing total shareholder payout ratio to approximately ~52%. In our view, sustained free cash flow generation from non-resource and downstream businesses supports long-term dividend growth and recurring buyback execution. Compared with historical trading house cycles — where payouts were often reduced during commodity downturns — Itochu's payout sustainability appears structurally stronger due to improved earnings mix stability.

Exhibit 11: Core Profit Guidance Revision and Net Profit Stability



Sources: Company Presentation

Exhibit 12: Continued Share Buybacks Reinforce Shareholder Return



Sources: Company Presentation

Asia Consumption Optionality via CP–CITIC Network and Downstream Positioning

Itochu's Asia positioning provides asymmetric upside optionality that is often underappreciated relative to its “Japan trading house” label. The company's partnership with Thailand's CP Group and resulting ~10% stake in CITIC creates a differentiated channel into China's industrial, consumer, and financial ecosystems. This relationship is strategically valuable because it provides Itochu **privileged access to deal flow, distribution networks, and regulatory-adjacent partner alignment** — an advantage not easily replicated by peers.

From an earnings perspective, this Asia platform complements Itochu's consumer and food strategy. Itochu can intermediate supply chain flows across Japan–ASEAN–China in food, consumer brands, industrial materials, and logistics, benefiting from continued urban consumption growth in Southeast Asia and any incremental acceleration in China demand. In an improving China cycle, Itochu has exposure not only through commodity volumes but also through downstream consumer distribution channels, which typically deliver higher quality earnings than upstream commodity projects.

Exhibit 13: CP Group Partnership and CITIC Strategic Linkages



Sources: NIKKEI Asia

Exhibit 14: Energy Transition Exposure — Partnership Model vs Peer Capex Intensity

Financial Outlook for Fiscal Second Quarter and Fiscal Full-Year 2026

YoY Increase / (decrease) on a Non-GAAP Adjusted Constant-Dollar Basis ⁽¹⁾	Q2 2026	Full-Year 2026
Net Revenue Growth	Low-double-digit	Low-double-digit
Operating Expense Growth	Mid-teens	Low-double-digit
Diluted Class A Common Stock Earnings Per Share Growth	High-end of low-double-digit	Low-double-digit

⁽¹⁾ Refer to the appendix for further information and a reconciliation of GAAP to non-GAAP and non-GAAP adjusted constant-dollar outlook financial measures.

Sources: Company Presentation

Measured Energy Transition Strategy Limits Capital Risk While Preserving Upside

Itochu historically avoided large speculative renewable investments, which reduced impairment risk in prior cycles. More recently, it has selectively increased clean energy exposure through partnership-driven, regulation-aligned initiatives rather than balance sheet-heavy mega-projects. Examples include residential solar initiatives aligned with Tokyo's solar installation mandate and selective renewable generation exposure overseas, providing gradual portfolio transition without sacrificing ROE discipline.

This measured approach is important: it **reduces the probability of value-destructive “theme chasing”** while preserving optionality as energy transition economics improve. Over time, incremental clean-tech exposure also supports Itochu's ESG positioning and can reduce discount rates applied by global allocators, particularly as more capital is constrained by sustainability frameworks.

Valuation Framework: Quality Premium Supported by Earnings Stability and ROE Durability

Itochu currently **trades at valuation levels that partially reflect its earnings quality improvement but still retain elements of historical trading house discount** structures. Given sustained ROE in the low-teens range, record earnings trajectory (~¥880bn FY2025 net profit and ~¥900bn FY2026E guidance), and structurally higher payout ratio (~52%), we believe Itochu warrants structural premium positioning within the Sogo Shosha sector on both P/B and ROE-adjusted valuation frameworks.

Compared with peers still more exposed to commodity cycle earnings volatility, Itochu's higher non-resource earnings contribution and lower historical impairment intensity support lower earnings volatility discounting. In global allocator terms, **Itochu increasingly screens closer to high-quality industrial compounders rather than cyclical commodity proxies**. If non-resource earnings contribution continues expanding and ROE remains sustainably above ~15%, we see potential for gradual multiple expansion relative to sector historical averages.

Exhibit 15: Relative Valuation Discount vs Major Trading House Peers

Summary of Current Multiples								
	Name	↓ 2Y Corr	Mkt Cap (JPY)	BF P/E	BF EV/EBITDA	BF EV/EBIT	BF EV/Rev	LF P/BV
11	ITOCHU Corp		16.96T	16.1x	19.5x	29.3x	1.4x	2.4x
	Current Premium to Comps Mean			-16%	-16%	-26%	-3%	3%
	Mean (Including 8001 JP)		15.98T	19.2x	23.2x	39.8x	1.4x	2.3x
12	Mitsubishi Corp	0.75	20.70T	23.3x	26.1x	53.2x	1.4x	2.1x
13	Marubeni Corp	0.77	10.27T	18.2x	23.8x	37.0x	1.5x	2.5x

Sources: Bloomberg

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.