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Highlights of Major Shipping Companies' Financial Results for Fiscal Year Ended March 2021

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2021 (FY2020) and earnings forecasts for FY2021 of Japan's three major shipping Companies (the "Companies"): Nippon Yusen Kabushiki Kaisha ("NYK"), Mitsui O.S.K. Lines, Ltd. ("MOL") and Kawasaki Kisen Kaisha, Ltd. ("K Line").

1. Industry Trend

The container shipping business of the Companies has been faring well. The Companies saw a year-on-year negative growth in container cargo volume during the April to June 2020 period, affected by the COVID-19 pandemic. However, since July, the volume has been increasing in comparison with the same term last year thanks to a rise in demand for consumables and medical related products, among others, achieving a full-year volume of 19.62 million TEUs, up 13.6% year on year. The European routes (outward voyage) gained a container cargo volume of 14.9 million TEUs during the period from April 2020 to February 2021, which is the same level with the previous year. Meanwhile, while the Companies had limited the number of operating vessels in tandem with a fall in cargo movement, shipments for North America routes picked up, which brought about a tighter supply demand balance in shipping space. Because of these, along with other factors such as a lack of dock workers in the U.S. and congestion in internal transportation under the pandemic, the freight market has spiked since the summer of 2020. The tighter supply-demand balance in containers and shipping space affected routes other than those for the North America, and now the freight markets of almost all routes stay at high levels.

Regarding the dry bulk shipping, crude steel outputs in China had slowed down until around May 2020 due to the impact of the COVD-19 pandemic, which made the capesize freight market low. That said, as the Chinese economy has bounced back since June, crude steel outputs and iron ore imports increased. Driven by this, the capesize freight market surged and has been basically flat at a high level, though there were short-term fluctuations. Moreover, with the shipping space tightened, the freight market has been rising further since April 2021. On a full-year basis, however, the average freight of capesize for FY2020 was below that of FY2019.

For tankers, when crude oil prices fell during the period from March to May 2020, the VLCC (very large crude oil carrier) freight market spiked because of the tighter supply-demand balance of shipping space due to an increase in demand for wet storage eyeing future price hikes. Subsequently, the wet storage demand weakened with a rise in crude oil prices, the supply demand balance of shipping space was alleviated, and thereby the VLCC freight market declined. Because the Companies are mainly engaged in medium-to-long term contracts, they were affected by the freight market fluctuation only to a limited degree. However, medium- and small-sized crude oil tankers and some VLCCs enjoyed the advantage of freight rises. Even so, given that the current freight market is now somewhat weak due to an output cut by major oil producing states, the freight market is unlikely to rise for the foreseeable future.

For the automobile carrier business, the number of cars transported plummeted in the first quarter of FY2020 due to the impact of the pandemic, but later on, it recovered at the pace faster than initially assumed, achieving a level comparable with the same period last year since the third quarter. Even so, on the FY2020 full year basis, having significantly hit by the negative growth in the first half period, all of the Companies saw a yearly 20%-plus decrease in the number of cars transported. Responding to the demand decrease in the first half of the fiscal year, each of the Companies pushed ahead with optimization of its fleet size through disposal of vessels, etc. With the number of cars transported recovered in FY2021, all of them are expecting an around 20% year on year increase.

2. Financial Results

The Companies' total recurring profit for FY2020 significantly expanded to 438.4 billion yen, 4.1 times larger than the last fiscal year (See Chart 1). As of the beginning of the period, earnings were expected to worsen from FY2019, affected by the impact of the pandemic. However, as the container vessel freight market showed a more-than-expected rise, earnings of Ocean Network Express Pte. Ltd. ("ONE"), a company established through the integration of the liner container business of the Companies, considerably improved and pushed up the recurring profit of each of the Companies.

ONE recorded a significant increase in FY2020 profit after tax of USD 3,484 million, up by USD 3,380 million year on year. Although the profit after tax in the first quarter was as low as USD 167 million because of a decrease in handling volume, subsequently, the income after tax grew at an increased rate, on the back of an increase in handling volume and a rise in the freight market, as presented by the following figures: USD 515 million for the second quarter, USD 944 million for the third and USD 1,858 million for the fourth. Because there was a remarkable rise in freight rates for the North American routes in particular, ONE, which has a high market share for the routes, received a strong boost.

On the financial front, the combined DER of the Companies as of March 31, 2021 (without taking into account the equity content of subordinated loans of MOL and K Line) stood at 1.7x (2.5x at end-FY2019), making an improvement first time in six periods. (Chart 2). At each of the Companies, interest-bearing debt declined, and the increased net profit pushed up the equity capital. On the other hand, each of them recorded a decrease in operating profit, which resulted in a drop in EBITDA. As a result, the total ratio of interest-bearing debt to EBITDA of the Companies for FY2020 was 8.4x, slightly worsened from 8.1x in FY2019.

3. Highlights for Rating

Total recurring profit for FY2021 is expected to be 285 billion yen, down 35.0% year on year, a deterioration for the first time in three fiscal years. While performance in the automobile carrier and dry bulk shipping businesses is projected to improve, thanks to the recovery in handling volume and rising profits, among others, profits of ONE is assumed to decline in the latter half of the period, which serves as the main cause of the forecast for an earnings decrease.

Regarding FY2021 performance of the Companies, trends in ONE's earnings continue to be a focus of attention. ONE announced that the earnings forecasts for FY2021 is undecided because of difficulty to reasonably draw up the forecasts at this point. Meanwhile, the Companies seem to have incorporated their view that the now escalating container vessel freight market will calm down basically through the latter half of the period. Currently, the supply chain of container vessels has been in turmoil as shown by congestion in ports and inland, demurrage at each port, global container shortage, etc., which is accelerating the freight market further. If such turmoil is delayed in coming to an end, the freight market may stay high, which would work positively to the Companies' performance for FY2021. That said, today's freight market is at a high level compared to the past track record, JCR needs to pay attention to the continuity going forward.

For the non-liner vessel business, a certain margin is assumed to be secured by medium-and long-term contracts for dry bulkers, tankers, LNG carriers, and others. In addition, the effect of structural reforms each of the Companies has worked on mainly in dry bulkers would push up profit. As each has reduced the market exposure, increases in profit as of strong freight market seems to be curbed but the downside risk has been constrained from the past. Thus JCR believes that the performance of the non-liner vessel shipping will be solid for the foreseeable future.

For the past years, the financial structures of the Companies had been at a level that had room for improvement, affected by interest-bearing debt staying high and a decrease in equity capital. However, in FY2020, thanks to earnings improvement and reduction in interest-bearing debt through asset sales, among others, their financial structures improved. For FY2021, each of them is also planning to make progress in profit accumulation and cut in interest-bearing debt, which would solidify the financial structure further. JCR will pay attention to whether they will be able to accelerate their financial structure in the phase of strong performance.

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(Chart 1) Financial Results of Three Major Shipping Companies

(JPY 100 mn, %)

		Revenues	YoY Change	Operating Profit	YoY Change	Recurring profit	YoY Changes	Recurring profit/ Revenues	Profit attributable to owners of parent	YoY Change
NYK	FY2019	16,683	-8.8	386	249.1	444	-	2.7	311	-
(9101)	FY2020	16,084	-3.6	715	84.9	2,153	384.1	13.4	1,392	347.3
	FY2021 F	15,000	-6.7	660	-7.7	1,400	-35.0	9.3	1,400	0.6
MOL	FY2019	11,554	-6.4	237	-37.0	550	42.8	4.8	326	21.4
(9104)	FY2020	9,914	-14.2	-53	-	1,336	142.5	13.5	900	176.0
	FY2021 F	10,600	6.9	280	-	1,000	-25.2	9.4	900	-0.1
K Line	FY2019	7,352	-12.1	68	-	74	-	1	52	-
(9107)	FY2020	6,254	-14.9	-212	-	894	1108.3	14.3	1,086	1,962.9
	FY2021 F	5,700	-8.9	0	-	450	-49.7	7.9	350	-67.8
3 Companies in total	FY2019	35,590	-8.7	693	188.0	1,069	-	3	690	-
	FY2020	32,253	-9.4	449	-35.2	4,384	309.8	13.6	3,379	389.7
	FY2021 F	31,300	-3.0	940	109.1	2,850	-35.0	9.1	2,650	-21.6

(Source: Prepared by JCR based on financial materials of above Companies)

*1 FY2021 forecasts are based on each Company's announcement.

(Chart 2) Financial Structure of Three Major Shipping Companies

(JPY 100 mn, times)

		Shareholders' equity	Interest-bearing debt	D/E Ratio	EBITDA	Interest-bearing debt/EBITDA	Operating cash flow	Investment cash flow
NYK	FY2018	4,874	10,526	2.2	1,127	9.3	452	-1,322
(9101)	FY2019	4,626	10,498	2.3	1,541	6.8	1,169	-548
	FY2020	6,253	9,511	1.5	1,782	5.3	1,593	-168
MOL	FY2018	5,250	11,058	2.1	1,416	7.7	552	-1,983
(9104)	FY2019	5,133	10,966	2.1	1,256	8.7	1,007	-1,072
	FY2020	5,777	10,269	1.8	933	11.0	988	-546
K Line	FY2018	1,035	5,502	5.3	195	28.2	-68	-354
(9107)	FY2019	1,010	5,434	5.4	547	9.9	-217	-202
	FY2020	2,181	5,070	2.3	251	20.2	333	169
3 Companies in total	FY2018	11,160	27,087	2.4	2,739	9.9	937	-3,661
	FY2019	10,770	26,899	2.5	3,346	8.1	1,958	-1,824
	FY2020	14,213	24,851	1.7	2,967	8.4	2,916	-545

(Source: Prepared by JCR based on financial materials of above Companies)

*2 MOL and K Line's shareholders' equity and interest-bearing debt are calculated without evaluating the equity content of subordinated loans.

<Reference>

Issuer: Nippon Yusen Kabushiki Kaisha

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Mitsui O.S.K. Lines, Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Kawasaki Kisen Kaisha, Ltd.

Long-term Issuer Rating: BBB- Outlook: Stable

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