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Highlights of Major Shipping Companies' Financial Results for Fiscal Year Ended March 2022

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 2022 (FY2021) and earnings forecasts for FY2022 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

Freight rates continue to stay high for container vessels. Container cargo volume on the North American routes (outward voyage) showed a year-on-year increase during the April to July 2021 period with growth in the volume of furniture, electrical appliances, etc. transported, which was driven by stay-at-home demand. Although year-on-year growth was negative during the August to November period due to supply chain chaos, it turned positive again in the December 2021 to February 2022 period; consequently, cargo volume improved for two years in a row in FY2021 to 21.41 million TEUs, up 9.1% from the previous year. Container cargo volume turned around also on the European routes (outward voyage) after two years in the April 2021 to February 2022 period, improving 5.4% from the same period a year ago to 15.70 million TEUs. As supply-demand balance in shipping space tightened because of such factors as a lack of dock workers, congestion in internal transportation and restrictions on arrivals at ports amid the COVID crisis, freight rates rose even further in FY2021 from FY2020. JCR predicts that the freight market will calm down in the long run as the supply chain returns to normal, but it is difficult to predict when the crisis will tail off; therefore, freight rates are assumed to remain high for a while.

Freight rates went up in FY2021 also for dry bulkers. Baltic Dry Index came to 3,005 points, exceeding 3,000 points for the first time in thirteen years. Shipping space has been restricted due to an increase in cargo movements as a result of economic recovery, as well as to other factors including difficulty in the rotation of sailors and arrival restrictions at ports amid the COVID crisis, thus tightening supply-demand balance. While short-term fluctuations are expected because of seasonal factors, etc., steady movements of grains, coals and other items suggest that market conditions will remain firm for dry bulkers for the time being.

Freight rates have been low for tankers. Sluggish growth in consumption due to the COVID crisis and slow recovery in the reduced oil production by OPEC countries and non-OPEC countries are stagnating improvement in transport demand. Because the Companies' VLCCs (very large crude oil carriers) are operated mainly based on medium-to-long term contracts, they have been affected only limitedly; however, low freight rates have impacted some of medium- and small-sized crude oil tankers and VLCCs. Looking ahead, the cut in oil production by major oil producers will be curbed gradually, which is expected to help boost transport demand. In any case, there remain uncertainties about the future, including the impact of economic sanctions on Russia by Western nations.

For automobile carriers, growth in vehicle production was sluggish due to the shortage of semiconductors and components, but the number of cars transported increased in FY2021 with recovery from the COVID crisis. Also, navigational efficiency appears to have improved for the Companies alike thanks to the effective optimization of fleet size, revision of ship operations and so forth. Although the impact of the reduction in car production due to semiconductor and component shortages remains of concern in FY2022 as well, the number of cars transported for the Companies combined is expected to keep growing thanks to recovery from the COVID crisis, improving 7% from the previous year.

2. Financial Results

Ordinary income of the Companies combined surged in FY2021 to 2,382.4 billion yen, growing by as much as 5.4 times from the previous year, and all of the Companies marked a new record (Chart 1). As of the beginning of the year, total ordinary income was anticipated to worsen after three years to 285.0 billion yen, down 35.0% from the previous year, due to a drop in the second half's income for Ocean Network Express Pte. Ltd. ("ONE"), which was established through the integration of the liner container business of the Companies. However, freight rates rose more than expected for dry bulkers, and ONE's performance expanded on the back of the buoyant container vessel market, resulting in income growth for all of the Companies.

ONE's profit after tax grew sharply in FY2021 to 16,756 million US dollars, 4.8 times larger than the previous year. Total cargo volume improved only marginally to 12.06 million TEUs, up 0.8% from the previous year, and higher fuel oil prices and increases in the costs of the measures taken to address supply chain chaos dragged down the profit. However, freight rates rose further from the previous year to be a major contributing factor behind sharp profit growth. They not only did not decline even in the fourth quarter, when cargo movements usually slow down due to seasonal factors, but hit a new high on a quarterly basis.

On the financial front, D/E ratio of the Companies combined (before the assessment of the equity content of subordinated bonds and subordinated loans for MOL and subordinated loans for K Line) as of March 31, 2022 was 0.6x, improving drastically from 1.8x a year before (Chart 2). All of the Companies saw interest-bearing debt decrease, and equity capital of the Companies combined grew 2.7 times larger from the previous year-end thanks to higher net income.

3. Highlights for Rating

Ordinary income of the Companies combined for FY2022 is expected to weaken after four years, dropping 26.3% from the previous year to 1,755.0 billion yen mainly because of the predicted fall in ONE's profit in the second half. Even so, the income is expected to come to the second highest level after the record high marked in FY2021, and therefore overall performance is assumed to remain favorable.

In terms of the Companies' FY2022 performance, trends in ONE's earnings remain the focus of attention. ONE has yet to determine its FY2022 business forecast for the reason that the announcement of reasonable forecast is difficult in a situation where economic conditions are changing dynamically. Meanwhile, the Companies have incorporated a fall in freight rates for container vessels in or around the second half into their respective forecast. Supply chain chaos for container vessels, including congestion in ports and inland transportation, demurrage at ports, etc., continues on the whole, though some improvement can be observed, and thus freight rates remain high. Moreover, the labor-management agreement with the International Longshore and Warehouse Union of the U.S. West Coast is scheduled for revision this summer. In the event that supply chain chaos continues, freight rates may remain high, which in turn may positively affect the Companies' FY2022 performance. Yet, current freight rates are already at higher levels than before, and thus attention must be paid to their continuity in the future.

For the non-liner vessel business, profits are underpinned by medium- and long-term contracts for dry bulkers, tankers, LNG carriers and others. In addition, thanks to effective structural reforms undertaken so far, mainly for dry bulkers, the Companies are successfully constraining downside risk to profits. While freight rates for dry bulkers, trends in car production, etc. require attention, the non-liner vessel business will probably remain strong.

Good business performance has helped significantly increase equity capital, rapidly strengthening the financial base, a challenge previously faced by the Companies. If a high profit level can be attained in FY2022, too, the financial base will likely become even stronger. Going forward, the Companies intend to shift to accelerating investment and expanding shareholder returns, backed by better finances. JCR will watch whether the Companies can maintain financial soundness over the medium and long term while strictly observing financial discipline and balancing investment and shareholder returns.

Masayoshi Mizukawa, Seiya Nagayasu

(Chart 1) Financial Results of Three Major Shipping Companies

(JPY 100 mn, %)

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary Income	YOY Change	Ordinary Income / Net Sales	Net Income Attributable to Owners of Parent	YOY Change
NYK (9101)	FY2020	16,084	*▲3.6*	715	*84.9*	2,153	*384.1*	13.4	1,392	*347.3*
	FY2021	22,807	*41.8*	2,689	*275.9*	10,031	*365.9*	44.0	10,091	*624.8*
	FY2022F	23,000	*0.8*	1,870	*▲30.5*	7,600	*▲24.2*	33.0	7,200	*▲28.6*
MOL (9104)	FY2020	9,914	*▲14.2*	▲53	-	1,336	*142.5*	13.5	900	*176.0*
	FY2021	12,693	*28.0*	550	-	7,217	*440.2*	56.9	7,088	*687.1*
	FY2022F	13,530	*6.6*	460	*▲16.4*	5,250	*▲27.3*	38.8	5,000	*▲29.5*
K Line (9107)	FY2020	6,254	*▲14.9*	▲212	-	894	*1,108.3*	14.3	1,086	*1,962.9*
	FY2021	7,569	*21.0*	176	-	6,575	*634.7*	86.9	6,424	*491.0*
	FY2022F	7,800	*3.0*	410	*132.1*	4,700	*▲28.5*	60.3	4,600	*▲28.4*
Total	FY2020	32,253	*▲9.4*	449	*▲35.2*	4,384	*309.8*	13.6	3,379	*389.7*
	FY2021	43,070	*33.5*	3,416	*660.0*	23,824	*443.4*	55.3	23,603	*598.4*
	FY2022F	44,330	*2.9*	2,740	*▲19.8*	17,550	*▲26.3*	39.6	16,800	*▲28.8*

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

*1 FY2022 forecasts are based on the Companies' respective announcement.

(Chart 2) Financial Structure of Three Major Shipping Companies

(JPY 100 mn, times)

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
NYK (9101)	FY2019	4,626	10,548	2.3	1,541	6.8	1,169	▲548
	FY2020	6,253	9,548	1.5	1,782	5.4	1,593	▲168
	FY2021	17,137	8,082	0.5	3,789	2.1	5,077	▲1,485
MOL (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
	FY2021	12,745	10,006	0.8	1,565	6.4	3,076	▲1,074
K Line (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
	FY2021	8,846	4,234	0.5	633	6.7	2,264	▲58
Total	FY2019	10,770	26,950	2.5	3,346	8.1	1,958	▲1,824
	FY2020	14,213	24,888	1.8	2,967	8.4	2,916	▲545
	FY2021	38,729	22,324	0.6	5,989	3.7	10,418	▲2,618

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

*2 Before the assessment of the equity content of subordinated bonds and subordinated loans for MOL and K Line's equity capital and interest-bearing debt

<Reference>

Issuer: Nippon Yusen Kabushiki Kaisha

Long-term Issuer Rating: A Outlook: Positive

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: Positive

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026