

Highlights of Major Private Railroad 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 14 major private railroad companies listed below.

TOBU RAILWAY CO., LTD. (security code: 9001), Sotetsu Holdings, Inc. (9003), TOKYU CORPORATION (9005), Keikyu Corporation (9006), Odakyu Electric Railway Co., Ltd. (9007), Keio Corporation (9008), Keisei Electric Railway Co., Ltd. (9009) and SEIBU HOLDINGS INC. (9024) in Eastern Japan area; Nishi-Nippon Railroad Co., Ltd. (9031), Kintetsu Group Holdings Co., Ltd. (9041), Hankyu Hanshin Holdings, Inc. (9042), Nankai Electric Railway Co., Ltd. (9044), Keihan Holdings Co., Ltd. (9045) and Nagoya Railroad Co., Ltd. (9048) in Western Japan area.

1. Industry Trend

Total number of passengers carried by the 14 major private railroad companies rated by JCR in FY2020 was 5,509.38 million, down 28.9% from FY2018, before the COVID-19 pandemic started in full scale. Of this total, the number of commuter pass passengers was 3,462.71 million (down 25.1% from FY2018), and the number of non-commuter passengers was 2,046.66 million (down 34.6% from FY2018). Both significantly dropped. On a quarterly basis, the number of passengers carried from the first quarter (Q1) to Q4 was 1,182.91 million (down 40.5% from the same period of FY2018), 1,461.70 million (down 24.8%), 1,508.38 million (down 22.4%), and 1,356.37 million (down 27.8%). The Q1, in the midst of declaration of a state of emergency last spring, was the period when the number of passengers carried declined the most, and the rate of decline narrowed in Q3 thanks to the effects of the Go To Travel campaign. In the Q4, however, the rate of decline increased again due to the second declaration of the state of emergency.

By region, total number of passengers carried in Eastern Japan area in FY2020 was 3,649.36 million (down 30.3% from FY2018), of which 2,291.81 million were commuter pass passengers (down 28.5%) and 1,357.55 million were non-commuter pass passengers (down 33.1%). In the Western Japan area, the number of passengers carried in FY2020 was 1,860.01 million (down 26.1% from FY2018), of which 1,170.9 million were commuter pass passengers (down 17.3%) and 689.11 million were non-commuter pass passengers (down 37.4%). In particular, there is a difference in the rate of decrease in the number of commuter pass passengers between Eastern and Western Japan areas. Although JCR cannot ascertain the detailed reasons, it is highly likely that the difference is due to the difference in the rate of telework implementation.

The plan for the number of passengers carried in FY2021 is 15.6% higher than in FY2020 on the basis of the 11 companies which have announced their figures, of which the increase in the number of commuter pass passengers is 10.7% and the increase in the number of non-commuter pass passengers is 23.8%. A certain degree of recovery with easing of voluntary restraint in going out, etc., has been factored into the plan. On the other hand, looking at the planned figure compared to FY2018, before the COVID-19 pandemic started in full scale, it is down 18.2% with a 17.9% decline in the number of commuter pass passengers and an 18.6% decline in the number of non-commuter pass passengers. No company expects a full-fledged recovery due to factors such as establishment of telework and slump in inbound travel.

The COVID-19 pandemic has also had a significant negative impact on the other related businesses of the railroad companies, such as lower hotel occupancy rates, lower sales at department stores, and restrictions on operations at leisure facilities. In particular, hotel business has been severely impacted, and the occupancy rates for resort hotels, mainly in tourist areas, recovered to a certain extent in Q3 of FY2020 due in part to the Go To Travel campaign, but dropped again in Q4 due to the second emergency declaration. City hotels, mainly in central Tokyo, remain sluggish due to restrictions on travel and disappearance of inbound demand. On the other hand, real estate business, mainly leasing, has not been significantly affected to date. Although there has been a slight decrease in rent revenue from the leasing of commercial facilities due to tenant closures and other factors, office

leasing, which is developed in good locations, mainly in front of train stations, has maintained a low vacancy rate.

2. Financial Results

Total operating revenue of the 14 major private railroad companies for FY2020 was 5,672.6 billion yen (down 26.4% YoY), with an operating loss of 263.1 billion yen (compared to a profit of 624.2 billion yen for FY2019), a significant deterioration due to the COVID-19 pandemic impact.

By segment, operating revenue in the transportation segment was 1,419.1 billion yen (down 31.4% YoY), and operating loss was 217.1 billion yen (compared to a profit of 277.5 billion yen for FY2019). Operating revenue in the other related businesses (total of segments other than transportation, before consolidation adjustments) was 4,253.5 billion yen (down 24.6% YoY), and operating loss was 45.9 billion yen (compared to a profit of 346.7 billion yen FY2019).

In the transportation industry, each company reported a decline in revenue in the 20% to 30% range. With the lingering effects of the COVID-19 pandemic, many companies have been working during FY2020 to reduce their depreciation burden by cutting back on investments and costs by reviewing their repair cycles. However, in the railway business, where fixed costs account for the majority of expenses, decline in revenue had a significant impact on profit. On an individual company basis, Keikyu, Keisei Electric Railway, Nankai Electric Railway, and Nagoya Railroad, which are responsible for airport transportation, tend to have particularly high rates of decline in revenue. The unit price of airport transportation is relatively high, and the continued slump in inbound travel, which had accounted for most of the demand, is considered to have a significant impact.

In the other related businesses, real estate business, mainly leasing, is generally supporting the decline in the hotel, travel, retail and other businesses. Total operating income of the 14 companies in real estate business for FY2020 was 204.6 billion yen (compared to 229.5 billion yen for FY2019), which was a limited deterioration. On the other hand, operating income of the other related businesses excluding real estate business significantly deteriorated to a loss of 245.2 billion yen (compared to a profit of 128.2 billion yen for FY2019). On an individual company basis, the degree of deterioration in the performance of the other related businesses varies depending on business portfolio. For example, Nankai Electric Railway, which is hardly involved in hotel business and has a high ratio for real estate leasing business, secured an operating income of 18.9 billion yen in its other related businesses as a whole, while SEIBU HOLDINGS and Kintetsu Group Holdings, which have a high ratio for hotel business, recorded operating losses of 41.4 billion yen and 37.6 billion yen, respectively.

As a result of net losses posted by each company, total equity capital of the 14 companies as of the end of FY2020 decreased to 5,120.8 billion yen (5,535.2 billion yen as of the end of FY2019), and the combined equity ratio declined to 27.3% (30.1% as of the end of FY2019). Net interest-bearing debt (JCR estimate) increased to 8,767.8 billion yen (8,187.3 billion yen as of the end of FY2019) and net DER worsened to 1.71x (1.48x as of the end of FY2019) due partly to certain constant maintenance and replacement investments as well as increased growth investments in ongoing projects, while operating cash flow declined.

3. Highlights for Rating

Total operating revenue of the 13 companies that have announced their performance forecasts for FY2021 is expected to be 5,438.4 billion yen (up 10.8% YoY), and operating income is expected to be 171.2 billion yen (compared to a loss of 245.0 billion yen in FY2020). The forecast for operating revenue includes the effect of application of accounting standard for revenue recognition, and excluding this effect, the revenue growth rate is 16.9%. Although JCR has factored in a certain degree of recovery from the COVID-19 pandemic in terms of the number of passengers carried and hotel occupancy rates, these figures are still low compared to FY2018 (total operating revenue of the 13 companies: 7,516.1 billion yen; operating income: 700.3 billion yen), before the COVID-19 pandemic started in full scale. Some of the companies' forecasts include the impact of the declaration of a state of emergency this spring, while others do not. The COVID-19 pandemic is not yet under control, and JCR will continue to closely monitor the situation, as there is a possibility that these forecasts will be revised in the future.

Going forward, from a perspective of rating, JCR will focus on their initiatives for (i) lowering the break-even point and (ii) improving the damaged financial structure.

While it is important to strengthen growth areas with an eye on developments after the COVID-19 pandemic in the medium term, JCR is paying attention to the effectiveness and speed of their efforts to address structural demand declines, such as decline in travel demand due to the spread of

telework and increased online interaction. The railway and hotel businesses have a heavy burden of fixed costs, but with no prospect of a full-fledged recovery from the COVID-19 pandemic, it will be important for them to lower the break-even point in order to secure profit. In FY2020, each company took emergency measures to reduce costs, but going forward, JCR will pay attention to whether they can proceed with a fundamental review of their cost structure. Some of the measures set forth by the companies include review of train operation diagram according to demand, optimization of the number of cars in their fleet, promotion of one-man operation, bringing hotel operations in-house, and improvement of operational efficiency through digitalization.

Rebuilding the financial structure damaged by the COVID-19 pandemic is also an issue, and many companies have made progress in improving their finances thanks to their strong performance up to FY2019. However, the degree of decline in their financial durability differs from company to company due to differences in their business portfolio and the amount of extraordinary losses. Going forward, it will become more important to increase the amount of decreased equity capital and control interest-bearing debt. Based on the current earnings forecasts of each company, there is little concern that their equity capital will be further impaired toward the end of FY2021. However, depending on trend in business environment, there is a concern that equity capital may decline further due to lower earnings forecasts and impairment losses in the hotel and leisure businesses. In terms of interest-bearing debt, there is a possibility that financial burden will significantly exceed cash flow, especially for those companies with large scale redevelopment projects being underway or beginning to start. Therefore, it will be important to generate a level of cash flow that can absorb the investment burden, and JCR will pay attention to whether they can quickly realize the effects of the aforementioned cost structure reforms and others. It is also important whether they can reduce their financial burdens by carefully examining their investments when large-scale projects are underway. Some companies have announced asset-light strategies, such as selling or securitizing their assets, as a way to improve their financial soundness. JCR will also pay attention to whether they can strengthen their financial structures through such off-balancing of assets and can improve profitability by reducing unprofitable assets.

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(Chart) Consolidated Business Performance of 14 Major Private Railroad Companies

(JPY100 mn, %, times)

		14 Companies Total		Eastern Japan Total		Western Japan Total	
			YoY Change (%)		YoY Change (%)		YoY Change (%)
Operating Revenue	FY2016	73,733	0.2	39,493	0.2	34,240	0.2
	FY2017	75,425	2.3	40,293	2.0	35,131	2.6
	FY2018	77,777	3.1	41,764	3.7	36,013	2.5
	FY2019	77,075	-0.9	41,931	0.4	35,143	-2.4
	FY2020	56,726	-26.4	31,345	-25.2	25,381	-27.8
Operating Income	FY2016	6,916	2.1	3,950	6.6	2,966	-3.4
	FY2017	6,973	0.8	3,946	-0.1	3,026	2.0
	FY2018	7,319	5.0	4,181	6.0	3,138	3.7
	FY2019	6,242	-14.7	3,495	-16.4	2,746	-12.5
	FY2020	-2,631	-	-1,815	-	-816	-
Ordinary Income	FY2016	6,680	5.1	3,879	11.6	2,800	-2.8
	FY2017	6,824	2.2	3,886	0.2	2,937	4.9
	FY2018	7,219	5.8	4,173	7.4	3,045	3.7
	FY2019	6,047	-16.3	3,435	-17.8	2,611	-14.3
	FY2020	-2,668	-	-2,015	-	-652	-
Net Income	FY2016	4,457	10.9	2,735	19.8	1,722	-0.8
	FY2017	4,451	-0.1	2,714	-0.8	1,736	0.8
	FY2018	4,414	-0.8	2,686	-1.0	1,727	-0.5
	FY2019	3,326	-24.6	1,807	-32.7	1,519	-12.0
	FY2020	-4,355	-	-2,913	-	-1,441	-

		14 Companies Total		Eastern Japan Total		Western Japan Total	
			YoY Change (%)		YoY Change (%)		YoY Change (%)
EBITDA	FY2016	12,444	1.7	7,303	4.6	5,140	-2.3
	FY2017	12,585	1.1	7,346	0.6	5,239	1.9
	FY2018	13,090	4.0	7,699	4.8	5,391	2.9
	FY2019	12,343	-5.8	7,254	-5.9	5,088	-5.7
	FY2020	3,547	-71.3	2,043	-71.8	1,504	-70.4
Equity Capital	FY2016	47,743	7.0	27,587	5.9	20,156	8.5
	FY2017	51,748	8.4	29,905	8.4	21,842	8.4
	FY2018	54,821	5.9	31,800	6.3	23,021	5.4
	FY2019	55,352	1.0	31,797	0.0	23,554	2.3
	FY2020	51,208	-7.5	29,060	-8.6	22,147	-6.0
Interest-bearing Debt	FY2016	82,850	-1.4	48,032	-0.9	34,818	-2.1
	FY2017	82,636	-0.3	48,454	0.9	34,182	-1.8
	FY2018	83,852	1.5	49,430	2.0	34,422	0.7
	FY2019	86,226	2.8	51,219	3.6	35,006	1.7
	FY2020	94,035	9.1	54,353	6.1	39,681	13.4
Equity Ratio	FY2016	27.9		28.5		27.1	
	FY2017	29.3		29.9		28.7	
	FY2018	30.2		30.7		29.5	
	FY2019	30.1		30.2		29.9	
	FY2020	27.3		27.6		27.0	
DER	FY2016	1.7		1.7		1.7	
	FY2017	1.6		1.6		1.6	
	FY2018	1.5		1.6		1.5	
	FY2019	1.7		1.6		1.5	
	FY2020	1.8		1.9		1.8	
Interest-bearing Debt/ EBITDA Ratio	FY2016	6.7		6.6		6.8	
	FY2017	6.6		6.6		6.5	
	FY2018	6.4		6.4		6.4	
	FY2019	7.0		7.1		6.9	
	FY2020	26.5		26.6		26.4	

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

Note: FY2020 figures for Interest-bearing Debt, DER and Interest-bearing Debt/ EBITDA Ratio are JCR estimates.

<Reference>

Issuer: TOBU RAILWAY CO., LTD.

Long-term Issuer Rating: A Outlook: Stable

Issuer: Sotetsu Holdings, Inc.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: TOKYU CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Keikyu Corporation

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Odakyu Electric Railway Co., Ltd.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Keio Corporation

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Keisei Electric Railway Co., Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: SEIBU HOLDINGS INC.

Long-term Issuer Rating: A- Outlook: Negative

Issuer: Nishi-Nippon Railroad Co., Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Kintetsu Group Holdings Co., Ltd.

Long-term Issuer Rating: BBB+ Outlook: Stable

Issuer: Hankyu Hanshin Holdings, Inc.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Nankai Electric Railway Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Keihan Holdings Co., Ltd.

Long-term Issuer Rating: A Outlook: Stable

Issuer: Nagoya Railroad Co., Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

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