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

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

## 1. Industry Trend

The total number of passengers carried by the 14 major private railroad companies rated by JCR in FY2021 was 5,956.94 million (up 8.1% from FY2020 and down 23.2% from FY2018 before the COVID-19 pandemic started in full scale; the same applies hereafter). Of this total, the number of commuter pass passengers was 3,603.74 million (up 4.1% and down 22.0%), and the number of non-commuter pass passengers was 2,353.20 million (up 15.0% and down 24.8%). On a quarterly basis, the number of passengers carried from the first quarter ("Q1") through Q4 was, respectively, 1,485.53 million (up 25.6% from the same period of FY2020 and down 25.3% from the same period of FY2018; the same applies hereafter), 1,442.43 million (down 1.3% and down 25.8%), 1,597.43 million (up 5.8% and down 17.8%), and 1,431.55 million (up 5.6% and down 23.7%). It was not a full scale recovery even in Q3 in which neither an emergency declaration nor semi-emergency COVID-19 measures were announced.

By region, the total number of passengers carried in eastern Japan area in FY2021 was 3,991.57 million (up 9.4% from FY2020 and down 23.7% from FY2018; the same applies hereafter), of which 2,394.35 million were commuter pass passengers (up 4.5% and down 25.3%) and 1,597.21 million were non-commuter pass passengers (up 17.7% and down 21.3%). In western Japan area, the total number of passengers carried in FY2021 was 1,965.37 million (up 5.7% and down 21.9%), of which 1,209.39 million were commuter pass passengers (up 3.3% and down 14.6%) and 755.98 million were non-commuter pass passengers (up 9.7% and down 31.3%). While eastern Japan area saw a higher decrease rate in the number of commuter pass passengers, western Japan area saw a higher decrease rate in the number of non-commuter pass passengers. Although accurate backgrounds cannot be grasped, the following factors will likely be reasons: 1) as the teleworking rate is higher in eastern Japan area in comparison to western Japan area, a relatively large shift to the non-commuter pass passengers is occurring; and 2) western Japan area hit harder by a decrease in tourism transportation.

Regarding the plan for the number of passengers carried in FY2022, each company expects that it will achieve a certain level of recovery in comparison to the previous period but fail to gain the pre-pandemic level. Since the railway business is a typical equipment industry (capital-intensive industry), most of expenditures are fixed costs. While railway transportation has been weak, each company is working on structural reduction of fixed costs through measures such as timetable revisions, personnel deployment optimization, and review of timing for train car renovation/maintenance cycles. In addition, some companies are making progress in the adoption of railway fare revisions or a barrier-free charge system.

The COVID-19 pandemic continues to have impacts on other related businesses of the railroad companies as well, such as low occupancy rates at hotels, decreases in the number of visitors at department stores, and restrictions on operating hours at leisure facilities, among others. In particular, the earnings of hotel business, which is largely affected by demands for inbound and business activities, are slow to recover, and each company is working to lower the break-even point through operational revisions. Moreover, some companies are proceeding with closing of unprofitable hotels and large asset sales. On the other hand, the real estate business, which is mainly handling leasing, has not been negatively impacted by the pandemic significantly. Although there has been a slight decrease in rent revenue from the leasing of commercial facilities due to tenant closures and so forth, office leasing, which is developed in prime locations, mainly in front of train stations, maintains low vacancy rates.

2. Financial Results

The total operating income of the 14 major private railroad companies in FY2021 was 134.3 billion yen (operating loss of 263.1 billion yen in FY2020; the same applies hereafter). Although the income improved from the previous period, it is still low compared to 731.9 billion yen, etc. in pre-pandemic FY2018. By segment, operating loss in the transportation segment was 44.7 billion yen (operating loss of 217.1 billion yen), and operating income in related segments (total of segments other than transportation) was 179.0 billion yen (operating loss of 45.9 billion yen).

The transportation segment reported an operating loss for the second consecutive period, failing to achieve a full recovery in railway transportation. However, railways income improved by around 10% from the previous period, and the size of loss has been reduced with cost structural reforms progressed by each company. Looking at railway transportation revenue on an individual company basis, TOKYU's decline rate (in comparison to FY2018) in the 30% range is higher than other companies' rates in the 10 to 20% range. However, TOKYU's decline rate of non-commuter pass transportation revenue is relatively small, which can suggest that a shift from commuting pass transportation has been progressing. For Keisei Electric Railway and Nankai Electric Railway, decline rates for non-commuting pass transportation are high, which seems to show a significant impact of a decrease in demand for paid airport express service. The two companies have constrained costs to a certain degree through suspension of operation of paid express service, etc. However, because there is concern that the recovery of demand for inbound may be later than that of domestic transportation, attention should be paid to moves of non-commuting pass transportation of these companies and their measures when demand recovery delays.

Related segments moved into the black. That said, looking at the breakdown of business portfolio, while the real estate business continues to record steady profits, the hotel business and the leisure business are seeing a recovery but still in the red at many companies. For this, while companies with high percentages of the hotel and leisure businesses are slow in income recovery speed, those with a high percentage of the real estate leasing business are seeing relatively small income fluctuations in comparison to the previous period. Meanwhile, some companies, such as TOKYU and Keikyu, pushed up profits through large property sales.

Affected by earnings deterioration under the COVID-19 pandemic, the financial structure of each company worsened as of the end of FY2020. For FY2021, however, because 13 out of the 14 companies secured a bottom line surplus, the total of equity capital at end-FY2021 recovered to 5,224.0 billion yen (5,120.8 billion yen at end-FY2020; the same applies hereafter) with an equity ratio of 27.9% (27.3%). In addition, while operating cash flow is recovering, many companies continued to restrain capital investments, which led to a positive free cash flow totaling 294.2 billion yen in FY2021. As a result, 8 out of the 14 companies saw a decrease in interest-bearing debt. The total outstanding interest-bearing debt of the 14 companies (JCR assumption) at end-FY2021 stood at 9,238.5 billion yen (9,427.50 billion yen). In particular, Kintetsu Group Holdings, which conducted large sales of hotel business assets, etc., reduced the total balance of debts and bonds by 120 billion yen from the end of the previous period.

3. Highlights for Rating

The total operating revenue and the total operating income of the 14 companies for FY2022 are planned to be 6,709.3 billion yen (up 12.7% year on year) and 347.8 billion yen (up 158.9% year on year), respectively. If factors such as a reactionary decline from international logistics which was strong in the previous period and large property sales are excluded, the prospects incorporate demand recoveries in almost all major segments. That said, each company's forecast figures are based on the assumption that there will remain impacts of the pandemic and projection for the degree of recovery vary. The business environment is unclear and the operations of railway transportation and hotel are highly likely to change with the presence or absence of restriction on action such as an emergency declaration. JCR, hence, will pay attention to trends in monthly figures, among others.

For the time being, from a perspective of rating, JCR will focus on progress in the following efforts:

(i) Lowering of the break-even point

The railway and hotel businesses have a heavy burden of fixed costs. In addition, even if the COVID-19 pandemic comes to an end, there might be structural changes in the manner of action through the spread of teleworking, web meeting, etc. In order to ensure profits while facing such a structural decline, lowering of the break-even point continues to be an important issue. In FY2020, companies took emergency measures to reduce costs, but in FY2021, each company shifted in its axis of efforts to structural cost reduction. For FY2022 and onward, polices to work on personnel deployment optimization, review of timing for train car renovation/maintenance cycles, operational efficiency improvement, etc. were set forth. JCR will confirm the progress and results of such measures.

(ii) Application of railway fare revisions or adoption of a barrier-free charge system

In the railway business, a large amount of costs are required to maintain infrastructure, and safety measure investments including platform barriers will continue to be needed going forward. In order to pay for such maintenance/management costs while the aforementioned structural demand decrease is concerned, there are moves toward the application of railway fare revisions or the adoption of a barrier-free charge system. In either case, it will likely be FY2023 and onward that the measures will fully contribute to earnings. If the measures are realized, a certain level of earnings improvement effect will be expected.

(iii) Improvement of the finical position

To recovery the financial structure hit hard by the COVID-19 pandemic remains an important issue. Because earnings hit the bottom and most of special losses including impairment loss seem to have been booked, there is little concern that their equity capital will be further impaired going forward. However, especially for the companies with large redevelopment projects underway or planned, there is possibility that the financial burden of interest-bearing debt will significantly exceed operating cash flow. Therefore, it will be firstly important to decrease the impact on the financial base by recovering cash flow generation capacity, and JCR will pay attention to whether the companies can realize the effects of the aforementioned cost structure reforms, etc. early, in tandem with the demand recovery status. Moreover, when large-scale projects are underway, it is important to reduce financial burdens by carefully examining investment details and schedules, etc. Some companies have set forth asset-light strategies, such as securitizing or sale of assets held, as a way to improve their financial soundness. JCR is focusing on whether they can strengthen their financial position through the off-balancing of assets and can realize profitability improvement effect by compressing unprofitable assets.

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

(JPY100 mn, %, times)

| | | 14 Companies Total | YoY Change (%) | Eastern Japan Total | YoY Change (%) | Western Japan Total | YoY Change (%) |
|---|---|---|---|---|---|---|---|
| Operating Revenue | 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 |
| | FY2021 | 59,524 | 4.9 | 31,366 | 0.1 | 28,157 | 10.9 |
| Operating Income | 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 | - |
| | FY2021 | 1,343 | - | 522 | - | 820 | - |
| Ordinary Income | 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 | - |
| | FY2021 | 1,828 | - | 601 | - | 1226 | - |
| Net Income | 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 | - |
| | FY2021 | 1,575 | - | 605 | - | 970 | - |

| | | 14 Companies Total | YoY Change (%) | Eastern Japan Total | YoY Change (%) | Western Japan Total | YoY Change (%) |
|---|---|---|---|---|---|---|---|
| EBITDA | 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 |
| | FY2021 | 7,299 | 105.8 | 4,200 | 105.6 | 3,098 | 106.0 |
| Equity Capital | 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 |
| | FY2021 | 52,240 | 2.0 | 29,198 | 0.5 | 23,041 | 4.0 |
| Interest-bearing Debt | 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 | 94,275 | 9.3 | 54,482 | 6.4 | 39,793 | 13.7 |
| | FY2021 | 92,358 | -2.0 | 53,687 | -1.5 | 38,670 | -2.8 |
| Equity Ratio | 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 | |
| | FY2021 | 27.9 | | 27.8 | | 28.1 | |
| DER | 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 | |
| | FY2021 | 1.8 | | 1.8 | | 1.7 | |
| Interest-bearing Debt/ EBITDA Ratio | FY2017 | 6.6 | | 6.6 | | 6.5 | |
| | FY2018 | 6.4 | | 6.4 | | 6.4 | |
| | FY2019 | 7.0 | | 7.1 | | 6.9 | |
| | FY2020 | 26.6 | | 26.7 | | 26.5 | |
| | FY2021 | 12.7 | | 12.8 | | 12.5 | |

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

Notes: 1) Change rates from FY2020 operating revenue to FY2021 operating revenue include impact from accounting standards on the revenue recognition standard

2) FY2021 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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