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Highlights of Electric Power Companies' Financial Results for Fiscal Year Ended March 2018

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 2018 (FY2017) and earnings forecasts for FY2018 of 10 former general electricity utilities: Tokyo Electric Power Company Holdings, Incorporated ("TEPCO"), Chubu Electric Power Company, Incorporated ("Chubu Electric Power"), The Kansai Electric Power Company, Incorporated ("KEPCO"), The Chugoku Electric Power Company, Incorporated ("Chugoku Electric Power"), Hokuriku Electric Power Company ("Hokuriku Electric Power"), Tohoku Electric Power Company, Incorporated ("Tohoku Electric Power"), Shikoku Electric Power Company, Incorporated ("Shikoku Electric Power"), Kyushu Electric Power Company, Incorporated ("Kyushu Electric Power"), Hokkaido Electric Power Company, Incorporated ("Hokkaido Electric Power"), and The Okinawa Electric Power Company, Incorporated ("Okinawa Electric Power").

1. Industry Trend

As two years have passed since the full liberalization of electricity retail sales in April 2016, the ratio of the number of switches of the low voltage customers mainly for general households from the electric power companies to new entrants was 11.3% as of March 31, 2018. With the figure of 5.5% as of March 31, 2017, these figures indicate that the number of switches has been progressing at a certain pace. Sales by these new entrants accounted for 7.7% of the low voltage sector and 12.4% of the whole including extra high and high voltage sectors in the electricity sales in January 2018, and their market shares are expanding. In April 2017, city gas retail market was liberalized for small-sized customers. Some electric power companies are promoting acquisitions of customers beyond distinctions of industries through providing various kinds of additional services in addition to the combined menu of electricity and gas.

With planned introduction of systems such as "baseload power market," "indirect power transmission rights," and "capacity market" from FY2018 to FY2020, detailed designs for each system are being studied. Measures to activate competition, that is, measures to strengthen competitive strength of new entrants, are included in the discussions, but these systems will not become systems that may have a significant impact on business bases of each electric power company in light of the discussions that have been conducted to date. Under the 5th Basic Energy Plan announced in May 2018, the central government showed its policy to keep the current power source composition for energy mix for 2030, while it set forth its plan to nurture renewable energy into a major power source for the longer future vision toward 2050. These policies may have an impact on directions of future investments on power facilities by each electric power company.

Out of the 26 power units for which applications for reviews on conformity by Nuclear Regulation Authority ("NRA") have been made, 9 units have obtained approval and authorization for restart of operation, and 6 units are currently in operation. Besides these units, some units are ready for immediate restart of operations. As shown by these developments, track records of restart have accumulated. For other power units outside the above, however, it will still take time for restart due partly to the time required for reviews and works for safety measures and uncertainty about agreements by local people. In December 2017, the district court issued a temporary injunction to halt the operation of Unit 3 of Shikoku Electric Power's Ikata Nuclear Power Plant, which was in operation (under periodic inspection). Although there have been an increasing number of cases where petitions for a provisional disposition order seeking an injunction against operation were dismissed, it remains necessary to watch legal risks.

2. Financial Results

The 10 companies' total electricity sales, which decreased 2.9% year-on-year to 760.3 billion KWh for FY2017, have been decreasing since the occurrence of the Great East Japan Earthquake. Although heating demand in winter increased due to lower temperature in FY2017 as compared with regular years, shift of existing customers to new entrants has been continuing since full liberalization of electricity retail sales. The decreasing trend of electricity sales has not changed in general. Total consolidated net sales of the 10 companies for FY2017, on the other hand, increased 7.7% year-on-year to 19,441.8 billion yen thanks primarily to the increased unit charge through fuel cost adjustment system. Revenue from subsidy based on feed-in tariffs for renewable energy has been increasing. Total ordinary income of the 10 companies increased for the first time in 2 years, up 6.2% year-on-year to 851.7 billion yen. Trends of improvement or worsening of time lag effects from fuel cost adjustment system differ from company to company. Other factors for an increase or decrease of the income differ, depending on individual companies. A decrease of fuel costs was a significant factor for the increase for some companies which realized restart of nuclear power plants.

Only 5 companies, the same number as last year, out of the 10 companies announced the forecasts for the profits for FY2018. There remain many companies which judged that it is difficult to estimate supply-demand conditions for electricity including time of restart of nuclear power plant and also cost. JCR sees, however, that it is unlikely that the business environment will significantly worsen and that each company will be able to continue securing an ordinary income. Excluding time lag gains (losses) of fuel cost adjustment, it is expected that the electric power companies will continue to offset a drop of profits mainly from a decline of electricity sales by an increase of wheeling charge revenue and cost reduction through improving operational efficiency. Some companies expect to realize or schedule restart of operations of nuclear power plants in FY2018, and these expected operations will raise their profits and cash flows.

Many companies advanced their equity capital recovery thanks to continued recording of net income. Equity ratio of the 10 companies in total increased to 20.6% as of March 31, 2018 from the recent bottom of 14.2% as of March 31, 2013. JCR sees that all 10 companies will secure a net income for FY2018, but it is unlikely that they will reduce interest-bearing debt due to their continued investments in safety measures for nuclear power plants, construction or replacement of thermal power plants. Considering the level before the Great East Japan earthquake as a goal, their financial structure is still on the road to recovery except a part of these companies.

3. Highlights for Rating

Excluding time lag gains (losses) of fuel cost adjustment, most of the 10 companies increased their income for FY2017, and JCR sees that they have been offsetting impact of the decreasing electricity sales on their income by increasing wheeling charge revenue, expansion of sales to Japan’s wholesale power exchange (Japan Electric Power Exchange, JEPX), etc., and continued efforts for cost reduction. However, there is a possibility that if shift of existing customers to new entrants progresses at the current pace, some companies, depending on regions, may fail to offset minus effects from decreasing electricity sales by other plus factors. Each electric power company is promoting measures for entering into city gas retail business, providing value added services, strategic fee policy, etc. to retain or take back customers. JCR considers whether the electric power companies can control the decline of electricity sales and the impact on profit as a result of shift of existing customers to new entrants will be a great point.

JCR is still paying attention to the progress of NRA’s reviews on conformity. Reduction of fuel cost through restart of operation of nuclear power plants is the most important issue for every electric power company for improvement of profit level and stability. Companies, which smoothly restarted their operations of nuclear power plants and increased their profit and cash flow levels, can intensively allocate their cash flows to measures to recover their price competitiveness and improve their financial structure, while managing required capital investments. On the other hand, JCR considers it is unlikely that companies, which are still on the road to the reviews on conformity, can accelerate their reviewing processes in light of their track records. JCR expects that restart of operations of nuclear power plants will gradually progress as before, assuming possible cases where they may take time to complete work for safety measures or obtain agreements by the local governments in the areas where nuclear power plants are located and in the vicinity.

Gaps among electric power companies in business performance or speed of financial improvement are widening due to differences in trend of shift of existing customers to new entrants in major service areas and differences in composition of power sources for power generation amount including having or not having restart of operation of nuclear power plants. JCR sees that these differences in business performance will lead to differences in their business strategies or investment behaviors and that these differences will have an impact on their earnings capacity or financial structure in the medium and long run. Concerning the major electric companies’ ratings, JCR will incorporate more strongly individual business risks or financial risks into their ratings in the liberalized competitive environment of energy, while still retaining basic stance that places value on stability of their business bases under the regulations and protections by the central government.

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(Chart 1) Consolidated Financial Results

(JPY100 mn, %)

	FY	Net Sales	YoY	Ordinary Income	YoY	Net Income	Equity Ratio
TEPCO	FY2016	53,577	-11.7	2,276	-30.2	1,328	19.1
(9501)	FY2017	58,509	9.2	2,548	12.0	3,180	21.1
	FY2018 forecast	60,990	4.2	2,850	11.8	2,520	
Chubu Electric Power	FY2016	26,035	-8.8	1,214	-52.5	1,146	31.1
(9502)	FY2017	28,533	9.6	1,285	5.8	743	31.3
	FY2018 forecast	29,500	3.4	1,350	5.0	1,000	
KEPCO	FY2016	30,113	-7.2	1,961	-18.8	1,407	19.3
(9503)	FY2017	31,336	4.1	2,171	10.7	1,518	20.8
	FY2018 forecast	-	-	-	-	-	
Chugoku Electric Power	FY2016	12,003	-2.5	194	-50.3	113	18.6
(9504)	FY2017	13,149	9.5	307	57.5	207	18.2
	FY2018 forecast	13,440	2.2	-	-	-	
Hokuriku Electric Power	FY2016	5,425	-0.4	20	-92.8	-6	20.8
(9505)	FY2017	5,962	9.9	26	32.8	-4	19.8
	FY2018 forecast	6,300	5.7	-	-	-	
Tohoku Electric Power	FY2016	19,495	-7.0	1,047	-31.4	699	16.8
(9506)	FY2017	20,713	6.2	884	-15.5	472	17.3
	FY2018 forecast	21,400	3.3	800	-9.5	500	
Shikoku Electric Power	FY2016	6,845	4.7	159	-27.5	113	23.3
(9507)	FY2017	7,317	6.9	280	75.8	196	23.5
	FY2018 forecast	-	-	-	-	-	
Kyushu Electric Power	FY2016	18,275	-0.4	942	3.6	792	12.0
(9508)	FY2017	19,603	7.3	736	-21.8	866	13.4
	FY2018 forecast	20,050	2.3	800	8.6	550	
Hokkaido Electric Power	FY2016	7,027	-2.9	126	-55.1	87	10.3
(9509)	FY2017	7,330	4.3	194	54.1	165	10.5
	FY2018 forecast	7,500	2.3	-	-	-	
Okinawa Electric Power	FY2016	1,799	-1.2	75	43.8	55	38.1
(9511)	FY2017	1,961	9.0	83	11.4	62	37.7
	FY2018 forecast	2,030	3.5	67	-20.1	51	
Total of 10 Companies	FY2016	180,599	-7.1	8,017	-32.6	5,738	19.6
	FY2017	194,418	7.7	8,517	6.2	7,409	20.6

Source: financial materials of above companies

<Reference>

Issuer: Tokyo Electric Power Company Holdings, Incorporated
Long-term Issuer Rating: A Outlook: Stable

Issuer: Chubu Electric Power Company, Incorporated
Long-term Issuer Rating: AA Outlook: Stable

Issuer: The Kansai Electric Power Company, Incorporated
Long-term Issuer Rating: AA- Outlook: Stable

Issuer: The Chugoku Electric Power Company, Incorporated
Long-term Issuer Rating: AA Outlook: Negative

Issuer: Hokuriku Electric Power Company
Long-term Issuer Rating: AAp Outlook: Negative

Issuer: Tohoku Electric Power Company, Incorporated
Long-term Issuer Rating: AA- Outlook: Positive

Issuer: Shikoku Electric Power Company, Incorporated
Long-term Issuer Rating: AAp Outlook: Stable

Issuer: Kyushu Electric Power Company, Incorporated
Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Hokkaido Electric Power Company, Incorporated
Long-term Issuer Rating: AA-p Outlook: Negative

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