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Highlights of Three Japan Railway 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 3 Japan Railway ("JR") companies in the main island: East Japan Railway Company (security code: 9020, "JR East"), West Japan Railway Company (security code: 9021, "JR West") and Central Japan Railway Company (security code: 9022, "JR Central").

1. Industry Trend

The total railway transportation revenue of 3 JR companies in the main island for the fiscal year ended March 2021 (FY2020) decreased 53.9%, a significant drop, to 1,849.8 billion yen. It can be broken down into a year-on-year decrease of 38.3% and 65.9% for conventional lines and Shinkansen respectively. As evidenced that Shinkansen, which assumes long-distance transportation, was given a stronger impact of the COVID-19 pandemic. Compared with that of the same period in FY2018, pre-pandemic, since effects of the pandemic have already been identified in the fourth quarter of FY2019, the figures are compared to these of FY2018, pre-pandemic, a decrease of 55.2% for total railway transportation revenue, a decrease of 39.5% for conventional lines and a decrease of 67.1% for Shinkansen. Comparing the total railway revenue for FY2020 on a quarterly basis with that of the same period in the previous year, a decrease of 69.4% for the first quarter, and the rate of decrease narrowed shown as a decrease of 54.8% for the second quarter and a decrease of 44.2% for the third quarter. In the third quarter, the effects of "Go To Travel" campaign were also seen. The fourth quarter showed a decrease of 46.0% but it was a decrease of 54.4% where it is compared to that of the fourth quarter of FY2018. JCR views that substantial rate of decrease expanded again due partly to the second state emergency declaration.

The total revenue of railway transportation for 3 JR companies in the main island is expected to increase 61.9% from a year earlier to 2,995.0 billion yen for FY2021. However, it remains at a 72.5% level of that of FY2018, pre-pandemic. Particularly, recovery in revenue of Shinkansen is assumed to be slower than that of the conventional lines as it remains at 71.8% for JR East, 68.6% for JR West, 66.4% in total of railway transportation revenue for JR Central (revenue of Shinkansen accounts for majority of its railway revenue under normal circumstances) of that of FY2018.

For medium term forecast of railway transportation revenue, JR Central expects up to around 90% recovery and full recovery to the pre-pandemic level in FY2023 and by FY2028 respectively. JR East and JR West indicate that they expect up to 90% recovery to the pre-pandemic level in general as the premise of the present management vision and medium-term management plan. Although it is difficult to predict the post-pandemic demand, JCR views that there will be changes in the demand structure due partly to penetration of working from home and on-line meetings to a certain extent and others. For the reasons, in order to recover the passenger traffic revenue to the pre-pandemic level, JCR views that implementing various measures to stimulate demand are important. JCR will monitor the progress of each companies' initiatives and the outcomes. At the same time, JCR will also monitor the effect of penetration of telecommuting to revenue of commuting passes and the shifting status of a part of commuters using railway without purchasing commuting passes for conventional lines, and impacts of increased non-face-to-face meetings to business users and recovery status of domestic and foreign tourists for Shinkansen.

2. Financial Results

The total operating revenue of the 3 companies for FY2020 decreased 44.6% year-on-year to 3,486.1 billion yen, and the operating income declined to 950.5 billion yen in the red from 1,197.5 billion yen in the black. Comparing the total operating revenue on a quarterly basis for FY2020 with that of the same period in the previous fiscal year, a decrease of 60.4% for the first quarter, and rate of decrease narrowed shown as a decrease of 46.3% for the second quarter, and a decrease of 36.2% for the third quarter. Although the fourth quarter showed a decrease of 35.0%, it was a decrease of 42.5% where it was compared to that of the same period in FY2018, pre-pandemic. By business segment, the total net sales for the related business segment (segments other than transportation segment) reported a decrease of 28.8% from a year earlier while the transportation segment reported a decrease of 51.8% from a year earlier. The transportation segment, which is a typical process industry, was a major factor causing the consolidated operating loss as against a decrease of 2,250.9 billion yen in the total revenue, the total operating income decreased 1,941.3 billion yen. On the other hand, the 3 companies' total operating income was 17.2 billion yen for the related business segment but it decreased 92.3%, a substantial decrease from a year earlier. The hotel business was significantly affected by decreased overseas visitors to Japan, people's voluntary restraint on going out, etc. In addition, commercial facilities, primarily those in stations, were also affected by the pandemic.

For FY2020, total operating cash flow declined from 1,384.0 billion yen for FY2019 to a negative 462.6 billion yen. Although total investment cash flow for FY2020 decreased from 1,522.7 billion yen for FY2019 to 1,095.8 yen due partly to holding down of investments, which do not require urgency, total free cash flow (operating cash flow minus investment cash flow) of a negative 138.7 billion yen for FY2019 expanded to a negative 1,558.4 billion yen. As a consequence, total balance of long-term debt (balance of interest-bearing debt for JR East) as of the end of FY2020 increased 1,665.1 billion yen from the end of FY2019 to 10,842.3 billion yen. Total equity capital for FY2020 decreased 1,065.6 billion yen from the end of FY2019 to 7,030.4 billion yen. Total equity ratio of the 3 companies deteriorated 5.8 percentage points from 37.8% as of the end of FY2019 to 32.0%.

3. Highlights for Rating

For FY2021, the 3 companies' total operating income forecast at 301.0 billion yen in the black. However, it will likely remain at a 21.6% level of that of FY2018 (total operating income for FY2018 was 1,391.5 billion yen). Amid the continuing strong uncertainties in the business environment, it will highly likely take time for performance recovery. Both JR East and JR West expect to report an operating loss for the transportation segment. JR Central, which expects to report operating income for the segment, projected at around 30% of the income for FY2018. In the transportation segment, JCR will monitor the deviation of actual demand from the demand forecast and whether further reduction in railway operating costs from the amount projected will progress or not.

For FY2021, the 3 companies' total capital investment is projected to increase 14.8% from a year earlier. While JR East plans to reduce the amount in two consecutive fiscal years following to FY2020, JR West, with an ongoing large redevelopment plan primarily in Umeda area, and JR Central, intending to commence a full scale Chuo Shinkansen-related investment, plan to increase the amount. Both JR East and JR West reviewed their medium-term management plans and announced lowered quantitative and new numerical goals. According to the revised plans, both companies plan to give priorities to holding down the investments, which do not require urgency, and cost structural reforms, but will not intend to substantially revise the investment plans for large-scale redevelopment projects and reinforcing businesses, which will be the future growth drivers. Although the 3 companies have not disclosed the projected balance of long-term debt (JR East: balance of interest-bearing debt) as of the end of FY2021, their balances of long-term debt will unlikely decrease substantially given their income projections and investment plans. Therefore, where income level goes below the plan, further reduction in investments mainly for maintenance and renewal may be required in addition to cost reduction.

JR Central published “Notice concerning total construction costs for the Chuo Shinkansen section between Shinagawa and Nagoya” when the financial results for FY2020 was announced. It indicated its new projection that the total cost for the section will increase approximately 1.5 trillion yen from the existing plan to 7.04 trillion yen with reasons of responding to challenging construction work, enhancing earthquake countermeasures, securing utilization sites of excavated soil, etc. At the same time, JR Central confirmed that based on reasonable assumption, if 1 trillion yen of new financing is added, the cumulative amount of funds available for construction of the section would exceed the total construction cost in FY2028. With respects to the Chuo Shikansen Project, JCR valued the following: i) cash flow generation capacity has risen from the level at the beginning of the Project and the financial base has also been reinforced; ii) funds for the Project are being raised in advance through long-term, fixed-low-interest loans from the Japan Railway Construction, Transport and Technology Agency; and iii) funds to be appropriated for the Project (long-term reserves for the Chuo Shinkansen construction) are being retained. JCR still retains the views at present and considers that the increase in construction cost this time will have a limited impact on the creditworthiness. However, JCR will continue to monitor the performance trend in the future since the construction cost increased in the situation where earnings has dropped significantly in the wake of the pandemic.

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(Chart 1) Consolidated business performance of three JR Companies in the main island

(JPY 100 mn, %)

		Operating Revenues	YoY	Operating Income	YoY	Interest-bearing debt (*1)
JR East (9020)	FY2019	29,466	*-1.8*	3,808	*-21.5*	33,123
	FY2020	17,645	*-40.1*	-5,203	-	43,502
	FY2021F(*2)	23,260	*31.8*	740	-	
JR West (9021)	FY2019	15,082	*-1.4*	1,606	*-18.4*	10,189
	FY2020	8,981	*-40.4*	-2,455	-	15,595
	FY2021F(*2)	12,575	*40.0*	120	-	
JR Central (9022)	FY2019	18,446	*-1.8*	6,561	*-7.6*	48,460
	FY2020	8,235	*-55.4*	-1,847	-	49,326
	FY2021F(*2)	12,340	*49.8*	2,150	-	
Total of 3 Companies	FY2019	62,994	*-1.7*	11,975	*-13.9*	91,772
	FY2020	34,861	*-44.6*	-9,505	-	108,423
	FY2021F	48,175	*38.2*	3,010	-	

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

Note:

(*1) Published figures of each company. Long-term debt for JR West and JR Central.

(*2) Forecast of operating income for FY2021 is based on the accounting standards of revenue recognition.

<Reference>

Issuer: East Japan Railway Company

Long-term Issuer Rating: AAAp Outlook: Stable

Issuer: West Japan Railway Company

Long-term Issuer Rating: AA+p Outlook: Stable

Issuer: Central Japan Railway Company

Long-term Issuer Rating: AAA Outlook: Stable

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