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Highlights of Electric Power Companies' Financial Results for Fiscal Year Ended March 2023

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 2023 (FY2022) and earnings forecasts for FY2023 of Japan's ten electric power companies (former general electricity utilities; collectively, the "Companies"): 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

Power demand in FY2022 turned downward from the previous year. According to the data on actual demand published by the Organization for Cross-regional Coordination of Transmission Operators, Japan, nationwide demand fell 1.7% over the year in the April 2022 to March 2023 period. Looking at year-on-year growth by month, it was mostly positive in the first half but weakened in the second half because of ongoing energy-saving efforts combined with unusually warm winter and power saving. That said, power demand is likely to start picking up going forward thanks to recovery of production activities, increase in tourists, etc. as economic activities will normalize after the COVID crisis.

In terms of competition, the sales share of new power suppliers is tending to decline after reaching its peak in the summer of 2021. It came to 18.8% in January 2023, versus the peak of 22.6% in August 2021. By sector, it was 24.0% in the low-voltage sector, 19.7% in the high-voltage sector and 6.8% in the extra high-voltage sector, as opposed to the respective peak of 27.5% in August 2022, 29.2% in July 2021 and 11.4% in August 2021. As a possible factor behind this, new power suppliers were forced to downsize or withdraw from the business as their performance deteriorated due to a surge in wholesale electricity market prices. Given greater volatility in fuel and wholesale electricity market prices, competition is assumed to be lull for the time being.

2. Financial Results

FY2022 results were very weak. For the Companies combined, simple addition of net sales jumped 41.7% over the year to 25,423.5 billion yen thanks to an increase in electricity rates, but that of ordinary income turned into negative 813.9 billion yen from the previous year's positive 26.9 billion yen. By company, all but Chubu Electric Power reported ordinary loss. Even in comparison to past results, the loss was the largest ever or the largest since the Great East Japan Earthquake. Factors like an increase in power supply costs due to surging fuel and wholesale electricity market prices and expenditures in excess of the ceiling of the amount that can be passed on to power bills placed downward pressure on the results. Chubu Electric Power, on the other hand, secured ordinary income thanks in part to the successful revision of the power source procurement portfolio by Chubu Electric Power Miraiz Co., Inc., an electricity retailer. Turning eyes to the industry as a whole, the degree of business deterioration varied, depending on the conditions of resumption of nuclear power stations.

Financial structure worsened drastically. As of March 31, 2023, while interest-bearing debt kept growing because of working capital requirements associated with the procurement of high-price fuels, eight of the Companies reported net loss, impairing equity capital. Equity ratio of the Companies combined dropped to 19.0% from 21.1% a year before (equity content of hybrid securities is not considered). That said, multiple operators have been trying to mitigate the negative impact on the financial structure by raising funds with equity content in recent years. The drop in equity ratio was relatively small for large operators TEPCO, Chubu Electric Power and KEPCO, while the others suffered a large decline.

3. Highlights for Rating

As of April 30, 2023, Chubu Electric Power, KEPCO and Kyushu Electric Power have announced their FY2023 forecast. Chubu Electric Power expects the elimination of time lag loss and the revised wheeling charges in the power transmission and distribution business to contribute to income growth. KEPCO and Kyushu Electric Power have resumed nuclear power stations ahead of others and will likely attain ordinary income thanks mainly to a decrease in fuel and other expenses and the elimination of time lag loss.

As regards other operators, upon obtaining permission on regulated rates, they too are releasing their forecast. As fuel prices are in the adjustment phase and time lag loss will be eliminated, earnings improvement will likely be driven by the revision of market-based rate plans and regulated rates. Looking ahead, positive factors of the earnings environment are expected to become evident, including recovery in power demand from the COVID crisis, launch of the new wheeling charge system and a decrease in the competitiveness of new power suppliers. Overall, JCR predicts that the Companies' performance will improve going forward.

While the Companies faced a severe management environment in FY2022, problems in various systems were brought to light, which will likely urge the removal of caps on fuel cost adjustment, revision of power source composition in calculating rate costs, amendment to the standard plan for regulated rates and so forth, consequently contributing to future business recovery and stabilization of the earnings. The expectation that the recovery of the financial base mainly through profit accumulation can be considered another factor positively affecting the rating. However, equity capital was impaired and interest-bearing debt grew further over the past few years. Therefore, the fact that financial margin is declining requires attention to a certain extent when the Companies anticipate safety investments for nuclear power stations and decarbonization investments.

Given recent performance, many of the Companies point out strengthening the financial structure as a priority management issue. Future attention will be paid to the effectiveness of the revision of electricity rates and the degree of earnings improvement on a consolidated basis. It is vital for the Companies to achieve business recovery as planned. Next is the level of equity capital. Equity ratio as of March 31, 2023 fell to the lower 10% range for multiple operators. Because the fact that financial resilience to absorb additional losses is declining cannot be denied, future performance will depend on whether the Companies can strengthen the financial base through the dividend policy, hybrid financing, etc.

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(Chart) Consolidated Financial Results

(JPY 100 mn, %)

	FY	Net Sales	YoY Change	Ordinary Income	YoY Change	Net Income	Equity Ratio
TEPCO (9501)	FY2021	53,099	-	422	-	29	24.8
	FY2022	77,986	46.9	-2,853	-	-1,236	22.8
	FY2023F	-	-	-	-	-	-
Chubu Electric Power (9502)	FY2021	27,051	-7.8	-593	-	-430	32.7
	FY2022	39,866	47.4	651	-	382	31.9
	FY2023F	37,000	-7.2	2,800	329.8	2,300	-
KEPCO (9503)	FY2021	28,518	-7.8	1,359	-11.6	858	19.2
	FY2022	39,518	38.6	-66	-	176	20.4
	FY2023F	43,000	8.8	4,250	-	3,050	-
Chugoku Electric Power (9504)	FY2021	11,366	-13.1	-618	-	-397	17.0
	FY2022	16,946	49.1	-1,067	-	-1,553	11.1
	FY2023F	20,410	20.4	800	-	590	-
Hokuriku Electric Power (9505)	FY2021	6,137	-4.0	-176	-	-67	19.6
	FY2022	8,176	33.2	-937	-	-884	12.9
	FY2023F	-	-	-	-	-	-
Tohoku Electric Power (9506)	FY2021	21,044	-8.0	-492	-	-1,083	14.8
	FY2022	30,072	42.9	-1,992	-	-1,275	10.5
	FY2023F	-	-	-	-	-	-
Shikoku Electric Power (9507)	FY2021	6,419	-10.7	-121	-	-62	20.8
	FY2022	8,332	29.8	-225	-	-228	18.3
	FY2023F	-	-	-	-	-	-
Kyushu Electric Power (9508)	FY2021	17,433	14.5	323	-41.3	68	12.1
	FY2022	22,213	27.4	-866	-	-564	10.4
	FY2023F	22,500	1.3	1,200	-	900	-
Hokkaido Electric Power (9509)	FY2021	6,634	13.4	138	-66.4	68	13.7
	FY2022	8,888	34.0	-292	-	-221	11.7
	FY2023F	-	-	-	-	-	-
Okinawa Electric Power (9511)	FY2021	1,762	-	27	-76.0	19	35.7
	FY2022	2,235	26.8	-487	-	-454	23.4
	FY2023F	2,347	5.0	56	-	40	-
Total	FY2021	179,467	-6.3	269	-96.4	-996	21.1
	FY2022	254,235	41.7	-8,139	-	-5,860	19.0
	FY2023F	-	-	-	-	-	-

Notes:
- FY2023F is the forecast of individual companies.
- Equity content of hybrid securities is not considered.

Source: Prepared by JCR based on financial materials of above companies (as of May 24, 2023)

<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: Stable

Issuer: Hokuriku Electric Power Company

Long-term Issuer Rating: AAp Outlook: Stable

Issuer: Tohoku Electric Power Company, Incorporated

Long-term Issuer Rating: AA Outlook: Stable

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: Stable

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