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Highlights of Major Shipping 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 three major shipping companies (the "Companies"): Nippon Yusen Kabushiki Kaisha ("NYK"), Mitsui O.S.K. Lines, Ltd. ("MOL") and Kawasaki Kisen Kaisha, Ltd. ("K Line").

1. Industry Trend

The freight rates of containerships had been at a high level, but they have fallen sharply since August 2022, and recently returned to the pre-COVID-19 level. The container cargo movement volume on North American routes (outbound) remained positive year on year from April to August 2022 due to continued inventory growth mainly in the retail sector. However, since September, it has been negative year on year because of the inventory adjustment phase. In the full FY2022, it fell to 19.62 million TEUs (down 7.3% year on year). Also on European routes (outbound), the container cargo volume from April 2022 to February 2023 decreased to 13.73 million TEUs (down 12.6% year on year), affected by a decline in cargoes related to Russia and Ukraine, as well as sluggish consumer spending reflecting soaring energy prices, among others. In addition to stagnant cargo movements, the supply-demand balance of shipping space which was tight has eased backed by the normalization of the supply chain. On the other hand, the freight rates currently seem to stop declining thanks to the effect of reduction in the number of operating vessels by container shipping companies. That said, the supply-demand balance is still likely to loose, given many new ships scheduled to be completed from the second half of 2023 onward.

The freight rates for dry bulkers are also weakening. The Baltic Dry Index fell sharply to an annual average of 1,673 points in FY2022 (3,005 points in FY2021). While harbor congestion was resolved in China, economic activity stagnated and the supply-demand balance of shipping space has eased, which affected the index. However, given that the order backlog for new ships is at a low level, the future downside of the freight rates is likely to be limited.

Tankers' freight rates are on the rise. The Russian invasion of Ukraine has led to a change in trade patterns, which led to a tighter supply-demand balance. The weak inflow pressure of new ships also supports the freight rates. The impact of these factors is expected to continue, and the freight rates for the time being are assumed to remain at a higher level than in the past.

Regarding car carriers, in the number of cars transported is recovering from drops under the COVID-19 pandemic. In addition, partly because that new cargo demand expanded with brisk exports of Chinese EVs and so forth, the supply-demand balance of shipping space is tightening. Given the medium-term recovery outlook for automobile production and other factors, the supply-demand balance is expected to remain tight for the foreseeable future.

2. Financial Results

The three Companies' total ordinary income in FY2022 was 2,612.2 billion yen (up 9.6% year on year), which was even higher than the significant record high in FY2021 (Chart 1). The strong performance of Ocean Network Express Pte. Ltd. ("ONE"), which integrated the liner containership business of the three Companies, continued to exceed expectations. In addition, that fact that the earning capacity of businesses other than containerships greatly contributed to earnings improvement. In particular, car carriers and tankers saw a significant improvement in earnings due to the tightening of the supply-demand balance of shipping space.

ONE reported after-tax income of 14,997 million US dollars for FY2022 (down 10.5% year on year). Despite an income decline, it secured a high level of income partly with soaring freight rates in the first half of the fiscal year. However, since the second half, falls in spot freight rates and cargo movements have continued, which clarified the fact that income passed a peak.

On the financial front, the combined D/E ratio of the three Companies (before the assessment of the equity content of hybrid securities for MOL and subordinated loans for K Line) as of March 31, 2023 improved further to 0.4x (0.6x at March 31, 2022) (Chart 2). The recording of sizable net income resulted in a large accumulation of equity capital. With cash flow improved, NYK and K Line reduced interest-bearing debt.

3. Highlights for Rating

The three Companies' total ordinary income for FY2023 is expected to be 530 billion yen (down 79.7% year on year), the first deterioration in five periods. The main reason is a substantial decline in the level of income from ONE, which drove the performance under the COVID-19 pandemic. However, income is expected to remain above the pre-pandemic level, underpinned by the improved earning capacity of businesses other than the containerships.

The trend in ONE's income level will continue to be a focus of attention. ONE sees that it is difficult to formulate reasonable earnings forecasts at this point, and has not determined its FY2023 forecasts. Meanwhile, the three Companies have incorporated a significant decline in ONE's income into their earnings forecasts. Declines in spot freight rates will likely significantly reduce the level of freight rates for term contracts in FY2023. However, given that earning capacity has improved thanks to the realization of synergies from the business integration and investment gains on abundant cash on hand will serve as a support, a certain level of income will likely be secured. Nevertheless, it is necessary to continue to pay attention to future trends in freight rates, including the fact that the number of newly built vessels is set to increase and concerns over an economic slowdown are spreading due to high inflation and turmoil in the financial sector.

In businesses other than containerships, JCR is focusing on the continuousness of their strong performance. The supply-demand balance of the shipping space of car carriers and tankers remain tight, and dry bulkers are expected to be roughly on par with the previous year. However, it is necessary to note whether demand will fall significantly in the face of an economic downturn or other factors. Nevertheless, performance will remain firm even if the freight rates are sluggish, partly due to the effects of the accumulation of medium-to long-term contracts and business restructuring in past years.

On the financial front, the balance between investments and shareholder returns, and financial soundness is the key. NYK and MOL announced new management plans in March, and indicated a policy of expanding investments and shareholder returns. K LINE also announced that it plans to provide additional shareholder returns in tandem with its FY2022 earnings announcement. However, each of the three Companies intends to work on investments and shareholder returns while maintaining financial discipline, and the impact on rating is expected to be limited at this point. JCR will continue to confirm whether the three Companies can maintain a favorable financial position.

Masayoshi Mizukawa, Seiya Nagayasu

(Chart 1) Financial Results of Three Major Shipping Companies

(JPY 100 mn, %)

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary income	YOY Change	Ordinary Income / Net Sales	Net Income Attributable to Owners of Parent	YOY Change
NYK (9101)	FY2021	22,807	41.8	2,689	275.9	10,031	365.9	44.0	10,091	624.8
	FY2022	26,160	14.7	2,963	10.2	11,097	10.6	42.4	10,125	0.3
	FY2023F	23,000	(12.1)	1,280	(56.8)	2,000	(82.0)	8.7	2,000	(80.2)
MOL (9104)	FY2021	12,693	28.0	550	-	7,217	440.2	56.9	7,088	687.1
	FY2022	16,119	27.0	1,087	97.6	8,115	12.4	50.3	7,960	12.3
	FY2023F	14,900	(7.6)	1,050	(3.4)	2,000	(75.4)	13.4	2,100	(73.6)
K Line (9107)	FY2021	7,569	21.0	176	-	6,575	634.7	86.9	6,424	491.0
	FY2022	9,426	24.5	788	346.4	6,908	5.1	73.3	6,949	8.2
	FY2023F	8,700	(7.7)	850	7.8	1,300	(81.2)	14.9	1,200	(82.7)
Total	FY2021	43,070	33.5	3,416	660.0	23,824	443.4	55.3	23,603	598.4
	FY2022	51,706	20.1	4,839	41.7	26,122	9.6	50.5	25,034	6.1
	FY2023F	46,600	(9.9)	3,180	(34.3)	5,300	(79.7)	11.4	5,300	(78.8)

*1 FY2023 forecasts are based on the Companies' respective announcement

(Source: Prepared by JCR based on financial materials of the above Companies)

(Chart 2) Financial Structure of Three Major Shipping Companies

(JPY 100 mn, times)

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
NYK (9101)	FY2020	6,253	9,548	1.5	1,782	5.4	1,593	(168)
	FY2021	17,137	8,082	0.5	3,789	2.1	5,077	(1,485)
	FY2022	24,786	6,940	0.3	4,345	1.6	8,248	(2,529)
MOL (9104)	FY2020	5,777	10,269	1.8	933	11.0	988	(546)
	FY2021	12,745	10,006	0.8	1,565	6.4	3,076	(1,074)
	FY2022	19,253	11,534	0.6	2,256	5.1	5,499	(2,819)
K Line (9107)	FY2020	2,181	5,070	2.3	251	20.2	333	169
	FY2021	8,846	4,234	0.5	633	6.7	2,264	(58)
	FY2022	15,153	3,516	0.2	1,265	2.8	4,560	(467)
Total	FY2020	14,213	24,888	1.8	2,967	8.4	2,916	(545)
	FY2021	38,729	22,324	0.6	5,989	3.7	10,418	(2,618)
	FY2022	59,193	21,992	0.4	7,867	2.8	18,308	(5,817)

*2 Before the assessment of the equity content of subordinated bonds and subordinated loans for MOL and K Line's equity capital and interest-bearing debt

(Source: Prepared by JCR based on financial materials of the above Companies)

<Reference>

Issuer: Nippon Yusen Kabushiki Kaisha

Long-term Issuer Rating: A+ Outlook: Positive

Issuer: Mitsui O.S.K. Lines, Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Kawasaki Kisen Kaisha, Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026