20-D-0240
June 12, 2020

Highlights of Major Private Railroad Companies' Financial Results for Fiscal Year Ended March 2020

The following is 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 2020 (FY2019) and earnings forecasts for FY2020 of Japan's major private railroad companies listed below.

Eastern Japan area: TOBU RAILWAY CO.,LTD. (security code: 9001), Sotetsu Holdings, Inc. (9003), TOKYU CORPORATION (9005), Keikyu Corporation (9006), Odakyu Electric Railway Co., Ltd. (9007), Keio Corporation (9008), Keisei Electric Railway Co., Ltd. (9009) and SEIBU HOLDINGS INC. (9024).

Western Japan area: Nishi-Nippon Railroad Co., Ltd. (9031), Kintetsu Group Holdings Co., Ltd. (9041), Hankyu Hanshin Holdings, Inc. (9042), Nankai Electric Railway Co., Ltd. (9044), Keihan Holdings Co., Ltd. (9045) and Nagoya Railroad Co., Ltd. (9048).

1. Industry Trend and Impact of COVID-19 Pandemic

In FY2019, the 14 major private railroad companies subject to JCR's rating (collectively, the "Companies") carried 7,727,420,000 passengers in total, down 0.3% from the previous fiscal year. Commuter pass users carried and non-commuter pass users carried increased 0.8% and decreased 2.0% year on year, respectively. Until the third quarter, the numbers of both commuter pass users carried and non-commuter pass users carried had been on an uptrend, thanks to a favorable employment environment and solid demand from inbound tourists. However, since the fourth quarter, the number of passengers carried has been depressed by self-restraint from going outside and a decline in the inbound tourists due to the COVID-19 pandemic. The number of passengers carried greatly decreased especially in March when the number of people infected surged. Looking at each of the Companies' monthly business overview, the numbers of commuter pass users carried and non-commuter pass users carried in March declined by 10%-plus and 30%-plus year on year, respectively. Meanwhile, there is no significant difference in trends in the figures between the east and the west part of Japan.

Furthermore, self-restraint from going outside and a fall in inbound tourists are affecting other businesses undertaken by each of the Companies, as shown by a drop in hotel occupancy rates, a decrease in sales at department stores and the suspension of the operations of leisure facilities.

For FY2020, because the effects of the COVID-19 pandemic are unpredictable, each of the Companies has not disclosed the forecasts of the number of its railway passengers carried. As the government's declaration of a state of emergency continued from April 7 to May 21 in the Kansai region and to May 25 in the Tokyo metropolitan area, the number of non-commuter pass users carried in the first quarter by each of the Companies is expected to decline significantly. In addition, it is highly likely that the penetration of telework resulted in a decline in the number of commuter pass users carried. According to monthly status for April disclosed by some of the Companies, the number of railway passengers carried (the total of commuter pass users and non-commuter pass users carried) has declined by around 50 to 60% from the same month a year earlier, indicating that the situation is likely becoming more severe than in March. At present, it is difficult to foresee when the pandemic comes to an end. Assuming that the number of railway passengers carried will hit a bottom following the lifting of the emergency declaration, JCR will confirm the status of recovery going forward.

2. Financial Results

In FY2019, the Companies' combined operating revenues and operating income stood at 7,707.5 billion yen (down 0.9% year on year) and 624.2 billion yen (down 14.7%), respectively. That said, trends are quite different between the first nine-month period of FY2019 and the fourth quarter only. While the operating revenues and operating income for the first nine-month period of FY2019 were 5,841.6 billion yen (up 2.2% year on year) and 594.7 billion yen (up 0.5%), respectively, those for the fourth quarter only were 1.865.8 billion yen (down 9.6%) and 29.4 billion yen (down 79%), respectively. The figures for the fourth quarter were primarily affected by self-restraint from going out due to the

COVID-19 pandemic. By segment, the operating revenues and operating income of the transportation business were 453.3 billion yen (down 9.7% year on year) and a loss of 5.7 billion yen (compared with a profit of 42.1 billion yen in the same period of the last fiscal year), respectively, and those of other businesses (the total of non-transportation segments; before adjustment for internal transactions, etc.) were 1,412.5 billion yen (down 9.6%) and 35.2 billion yen (down 64%), respectively, showing a significant decline. In recent years, some of the Companies have introduced and expanded the higher category train service in an effort to tap into demand from tourists including inbound visitors. Those firms appear to be experiencing a relatively large drop in non-commuting pass income at present because of slowing tourism demand. Among other businesses, the real estate leasing business is supporting the performance to a certain extent at each of the Companies, while lower occupancy rates in the hotel business and sales decrease at department stores are dragging down earnings.

Against the backdrop of an aggressive investment stance, the total investment cash flow of the 14 companies was 1,012.6 billion yen, exceeding the operating cash flow of 978.8 billion yen, and the total interest-bearing debt balance was 8,599.2 billion yen (including JCR estimates) with an increase from 8,385.2 billion yen at the end of the previous fiscal year. As a result, the debt-to-equity ratio ("DER") deteriorated to 1.7x (compared with 1.5x at the end of the previous fiscal year), and, partly because of the decline in the level of EBITDA, the ratio of interest-bearing debt to EBITDA worsened to 7.0x (compared with 6.4x in the previous period), but these indicators remained at favorable levels relative to the past several years.

3. Highlights for Rating

All the Companies have not disclosed their FY2020 earnings forecasts and intend to disclose them as soon as they become able to make the forecasts. The railway business is an equipment industry (a capital-intensive industry), and a decline in operating rates has a significant impact on profits. Therefore, if the recovery in railway use delays, it will highly likely affect FY2020 results substantially. It is hence important to continue checking the status of transportation on a monthly basis. In the short term, JCR is focusing on recovery in railway use triggered by the lifting of the emergency declaration, and over the medium term, on the impacts of the recovery in demand from inbound tourists and penetration of the "new lifestyles" on railway use and the ability to attract customers of commercial facilities. In other businesses, of which earnings are generated by the commercial facilities leasing business and the hotel business operating adjacent to base stations along the railway lines and large-scale terminals, are highly likely to recover to a certain extent at the same timing as the railway business. However, as the resilience is expected to differ depending on the regionality and the type of business, it is important to examine the impact of the recovery in demand from inbound tourists, among others, for each individual facility.

In many cases, private railway companies are preparing for large-scale redevelopment projects, and some of them are likely to face a heavy financial burden going forward. For such companies, in particular, it is important to reexamine growth investments other than redevelopment projects in order to reduce the investment burden. JCR will pay close attention to revisions to be made to the investment plan shown in the medium-term management plan in FY2020, the possibility that the overall investment scale of the plan will be revised, and the impact of the revision on the financial burden as a result. Each of the Companies has been accumulating capital against the backdrop of its favorable performance in recent years, and it is unlikely that the current decline in its ability to generate cash flow will immediately cause a sizable deterioration in its financial condition. In addition, while there are concerns about impairment losses on leisure facilities, such as hotels, it is difficult to assume a large loss to have a substantial impairment of their shareholders' equity.

Naoki Kato, Yusaku Hokakubo

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

(JPY100 mn, %, times)

		14 Companies Total		Eastern Japan Total		Western Japan Total	
			YOY Change (%)		YOY Change (%)		YOY Change (%)
Operating Revenues	FY2015	73,590	1.1	39,427	1.7	34,162	0.5
	FY2016	73,733	0.2	39,493	0.2	34,240	0.2
	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	35,131	-2.4
Operating Income	FY2015	6,777	13.1	3,706	10.8	3,070	16.1
	FY2016	6,916	2.1	3,950	6.6	2,966	-3.4
	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
Ordinary Income	FY2015	6,357	15.1	3,476	11.7	2,881	19.5
	FY2016	6,680	5.1	3,879	11.6	2,800	-2.8
	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	6,041	-16.3	3,429	-17.8	2,611	-14.3
Net Income	FY2015	4,020	15.8	2,283	13.2	1,736	19.3
	FY2016	4,457	10.9	2,735	19.8	1,722	-0.8
	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

		14 Companies Total		Eastern Japan Total		Western Japan Total	
			YOY Change (%)		YOY Change (%)		YOY Change (%)
EBITDA	FY2015	12,240	7.7	6,979	6.2	5,261	9.7
	FY2016	12,444	1.7	7,303	4.6	5,140	-2.3
	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	12,333	-5.8	7,244	-5.9	5,084	-5.7
Interest-bearing Debt	FY2015	84,051	-0.8	48,481	0.1	35,569	-2.0
	FY2016	82,850	-1.4	48,032	-0.9	34,818	-2.1
	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	85,992	2.6	51,103	3.4	34,888	1.4
EBITDA Margin (%)	FY2015	16.5		17.7		15.4	
	FY2016	16.9		18.5		15.0	
	FY2017	16.7		18.2		14.9	
	FY2018	16.8		18.4		15.0	
	FY2019	16.0		17.3		14.5	
DER	FY2015	1.9		1.9		1.9	
	FY2016	1.7		1.7		1.7	
	FY2017	1.6		1.6		1.6	
	FY2018	1.5		1.6		1.5	
	FY2019	1.7		1.6		1.5	
Interest-bearing Debt /EBITDA Ratio	FY2015	6.9		6.9		6.8	
	FY2016	6.7		6.6		6.8	
	FY2017	6.6		6.6		6.5	
	FY2018	6.4		6.4		6.4	
	FY2019	7.0		7.1		6.9	

Source: Prepared by JCR based on earnings results of above companies

Note: FY2019 figures for Interest-bearing Debt, DER and Interest-bearing Debt/EBITDA Ratio include 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: Positive
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: Stable
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

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