

## Revisions to Business Forecasts of ONE—JCR will Watch Impact on Business Results of 3 Major Shipping Companies with Severe Conditions

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on announcement on revisions to business forecasts of an integrated container shipping operating company Ocean Network Express Pte. Ltd. for the fiscal year ending March 2019 by 3 major shipping companies (Nippon Yusen Kabushiki Kaisha, Mitsui O.S.K. Lines, Ltd., and Kawasaki Kisen Kaisha, Ltd.)

- (1) The 3 major shipping companies announced on October 16, 2018 revisions to business forecasts of Ocean Network Express Pte. Ltd. ("ONE") for the fiscal year ending March 2019 (FY2018). ONE's profit/loss after tax was revised downward to a loss of USD 600 million from the previously forecast profit of USD 110 million due to the delay in solving the teething problems immediately after the commencement of services and stagnant liftings on backhaul voyages of its East-West trade lanes.
- (2) The 3 major shipping companies integrated their containership businesses which had been in the red and commenced services of ONE in April 2018. ONE was expected to demonstrate high competitive strength, leveraging economies of scale on the back of the 3 companies' best practices. It is considered that synergistic effects have steadily been realized, but improvement of the liftings has been slow in addition to the teething problems immediately after the commencement of services. Although ONE is realizing synergistic effects in a slow recovery condition of market for containerships with solid cargo movement, it is expected to face severe conditions regarding its profit level.
- (3) In the rating review of the 3 major shipping companies in February 2018, JCR assumed effects from stepwise cost reduction of ONE as a major reason for recovery of their business results. Given the content of the announcement this time, however, it is expected that each company will be required to bear burden of losses based on their investment ratio. The conditions are now becoming different from the JCR's assessment that downside risk of their business performance and risk of further worsening of their financial bases were reduced. JCR will review rating for each company based on impact on its business performance and financial base. JCR will also carefully examine outlook for business performance over a medium term and progress of financial improvement as well as measures to improve earnings including ONE to be reflected in their ratings.

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### <Reference>

Issuer: Nippon Yusen Kabushiki Kaisha

Long-term Issuer Rating: A Outlook: Negative

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

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Kawasaki Kisen Kaisha, Ltd.

Long-term Issuer Rating: BBB Outlook: Negative

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