

Highlights of Major Warehouse Companies' Financial Results for Fiscal Year Ended March 2019

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 2019 (FY2018) and earnings forecasts for FY2019 of Japan's seven warehouse companies (collectively, the "Companies"): Mitsubishi Logistics Corporation, MITSUI-SOKO HOLDINGS Co., Ltd. ("MITSUI-SOKO HD"), The Sumitomo Warehouse Co., Ltd., The Shibusawa Warehouse Co., Ltd., Toyo Logistics Co., Ltd., Chuo Warehouse Co., Ltd. and Yasuda Logistics Corporation.

1. Industry Trend

According to the Short-term Survey of Freight Movement in Japan by Nittsu Research Institute and Consulting, Inc., the freight movement index (obtained by subtracting the percentage of "Decrease" from the percentage of "Increase" in freight volume) has been positive since the July–September period of 2017 but turned negative in the January–March period of 2019. It is attributable to sluggish growth in imports/exports of production-related cargo due to China's economic slowdown, etc. The freight movement index is expected to be still negative for the April–June period of 2019. While freight movement in warehouse companies' mainstay logistics business is currently stable, attention needs to be paid to the future.

The Companies have been in a situation where their cost burdens are increasing. Due to a shortage of warehouse operators and drivers becoming increasingly serious, personnel and outsourcing expenses are tending upward. In response to this, warehouse companies are passing their costs onto sales or services prices. The index of freight rates and fees for warehouse storage (obtained by subtracting the percentage of price drop from the percentage of price rise) has been improving since the September-December period of 2017. Going forward, facing the shortage of workers that will not be solved easily, the Companies need to address the issues of price pass-on measures on a continuing basis as well as the streamlining of their operations and the expansion of highly profitable cargo they handle.

The real estate business has been performing well. The latest Office Market Data compiled by Miki Shoji Co., Ltd. suggests that business climate has been good for the real estate industry. As of March 2019, average vacancy rate of offices in the central business districts (five wards of Chiyoda, Chuo, Minato, Shinjuku and Shibuya) of Tokyo was 1.78% as opposed to 2.80% a year before, and average rent 21,134 yen per *tsubo* (approximately 3.3 square meters) as opposed to 19,699 yen per *tsubo*. That said, the leasing properties of warehouse companies are mostly built on the redeveloped warehouse sites, which means many are located outside the prime office and commercial districts. Therefore, these properties have not yet been allowed to fully enjoy the benefits of the improved market conditions.

2. Financial Results

Operating income for the Companies combined grew 14.5% year on year to 43.5 billion yen in FY2018. By segment, the income before consolidation adjustments improved 11.7% to 35.0 billion yen for the logistics business while increasing 4.6% to 26.3 billion yen for the real estate business. It indicates that the growth continued to be driven by the logistics business with stronger logistics functions and solid freight movement from FY2016 onward. By company, the income increased for the five companies of Mitsubishi Warehouse, MITSUI-SOKO HD, Shibusawa Warehouse, Toyo Logistics and Yasuda Logistics but fell for the two of Sumitomo Warehouse and Chuo Warehouse. Sumitomo Warehouse's result was adversely affected by the expansion of loss from the maritime business and Chuo Warehouse's was by upfront cost it incurred. Nevertheless, there has been no substantial change in the situation of the mainstay logistics business.

On the financial front, the equity ratio and DER for the Companies combined as of March 31, 2019 were 50.6% and 0.56, remaining almost flat from 50.0% and 0.58 a year before. Despite a decrease in valuation difference on available-for-sale securities, retained earnings increased on the back of good

business performance and equity capital grew to 691.0 billion from 686.2 billion yen a year earlier. Interest-bearing debt decreased to 383.6 billion yen from 398.6 billion yen, due to improved cash flow generating capacity and a decline in capital expenditures. The Companies exercise certain financial discipline in making business investments and providing their shareholders with returns. Every company has also been maintaining good financial indicators. MITSUI-SOKO HD, who has been rebuilding its financial base, steadily improved the equity capital ratio and DER to 18.8% and 3.01 from 16.8% and 3.58, respectively.

3. Highlights for Rating

The combined operating income is expected to be 42.7 billion yen in FY2019, down 1.8% from a year earlier. By company, the three of Mitsubishi Logistics, MITSUI-SOKO HD and Yasuda Logistics anticipate decreases in income, while the four of Sumitomo Warehouse, Shibusawa Warehouse, Toyo Logistics and Chuo Warehouse will likely achieve income growth. Even though the mixed landscape is seen in the overall trend of businesses, no substantial change will occur in the situation of the mainstay logistics business being solid and stable. The projected declines in the three companies' income are attributable to a decrease in income from the real estate business of Mitsubishi Logistics, a drop in MITSUI-SOKO HD's air cargo transport volume, and Yasuda Logistics' strategic spending, which have been incorporated in their plans. In addition, the Companies' capital investments are expected to be at levels wherein operational cash flows can almost absorb expenditures. Therefore, the direction of the rating is Stable for the warehouse industry as a whole.

The Companies anticipate seeing freight movement remains the same as the previous fiscal year. Nevertheless, due to impacts of the U.S.-China trade friction, etc., freight movement of production-related cargo and others can deteriorate. A consumption tax hike will have a ripple effect on freight movement primarily of consumption-related cargo. Effects on freight movement are not uniform, depending on the type of cargo being handled, areas a company covers, customers, etc., and need to be identified accordingly.

The Companies also have increasing burdens of outsourcing and personnel expenses. In order to enhance their earnings capacity in this situation, the expansion of high added-value services will be the key. Specifically, warehouse companies are focusing, for instance, on increasing the handling of pharmaceuticals that requires sophisticated storage technology, enhancing the ancillary service that combines distribution processing and delivery operations, and constructing new and additional warehouses at domestic and overseas locations, drawing attention to the outcome thereof. It is also essential to increase the effectiveness of measures including improvement of the efficiency of warehouse operations and transportation/distribution and review of the terms of the contracts.

Several companies revised their respective medium-term management plans. Mitsubishi Logistics, firstly, has set an operating income target of 14.5 billion yen for FY2021 (as against 12.6 billion yen for FY2018) and intends to make investments totaling approximately 100.0 billion yen over the next three years under the new *2019-2021 Medium-term Management Plan*. Secondly, Yasuda Logistics announced *YASDA Next 100* with an operating income target of 4.0 billion yen for FY2021 (as against 3.5 billion yen for FY2018). Lastly, Chuo Warehouse developed its medium-term management plan *CHANGE! to 2021* with an operating income target of 1.7 billion yen for FY2021 (as against 1.5 billion yen for FY2018) and intends to make investments totaling approximately 8.0 billion yen over the next three years.

The plans including those already announced show that the Companies' basic strategies include mostly the reinforcement of fields in which they excel, the expansion of overseas businesses, and the improvement of operational processes. They also intend to promote business investments and return to shareholders with due consideration to financial soundness, causing no concern about deviations from solid management they have implemented. While the Companies' P/L for the fiscal period and financial foundations may be affected temporarily in the course of pursuing their earnings growth, JCR places emphasis on factors in a medium- and long-term perspective, which will be reflected in the ratings as appropriate.

Hiroyoshi Otsuka, Masaki Abe

(Chart 1) Consolidated Business Performance of Seven Warehouse Companies

(JPY 100 mn)

		Consolidated		Logistics		Real Estate	
		Operating Revenue	Operating Income	Operating Revenue	Operating Income	Operating Revenue	Operating Income
Mitsubishi Logistics (9301)	FY2017	2,154	124	1,812	76	360	101
	FY2018	2,271	126	1,904	76	386	107
	FY2019F	2,320	117	1,929	79	411	93
MITSUI-SOKO HD (9302)	FY2017	2,332	69	2,248	58	91	50
	FY2018	2,418	119	2,334	98	91	51
	FY2019F	2,380	100	2,290	81	97	57
Sumitomo Warehouse (9303)	FY2017	1,757	103	1,665	97	105	52
	FY2018	1,861	87	1,771	86	104	50
	FY2019F	1,920	108	1,828	106	107	54
Shibusawa Warehouse (9304)	FY2017	632	33	576	25	56	28
	FY2018	646	37	588	26	58	30
	FY2019F	670	40	611	29	59	29
Toyo Logistics (9306)	FY2017	271	10	266	15	4	1
	FY2018	289	12	284	15	5	2
	FY2019F	290	12				
Chuo Warehouse (9319)	FY2017	260	16	260	16		
	FY2018	262	15	262	15		
	FY2019F	270	17	270	17		
Yasuda Logistics (9324)	FY2017	429	22	375	23	59	17
	FY2018	461	35	396	31	72	21
	FY2019F	469	31				
Total	FY2017	7,838	379	7,205	314	679	251
	FY2018	8,211	435	7,541	350	719	263
	FY2019F	8,319	427				

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

Note: Sumitomo Warehouse's logistics business includes marine transportation.

(Chart 2) Financial Indicators of Seven Warehouse Companies

(JPY 100 mn, %, times)

		FY2014	FY2015	FY2016	FY2017	FY2018
Mitsubishi Logistics (9301)	Equity Capital	2,605	2,549	2,742	2,917	2,961
	Interest-bearing Debt	763	709	655	719	867
	Equity Ratio	60.2	61.7	63.0	63.1	61.4
	Interest-bearing Debt/EBITDA	2.79	2.58	2.35	2.56	2.95
	Debt/Equity Ratio	0.30	0.28	0.24	0.25	0.29
MITSUI-SOKO HD (9302)	Equity Capital	682	616	377	440	474
	Interest-bearing Debt	1,250	1,607	1,688	1,576	1,424
	Equity Ratio	27.8	21.6	14.1	16.8	18.8
	Interest-bearing Debt/EBITDA	8.13	10.53	9.46	9.02	6.47
	Debt/Equity Ratio	1.85	2.64	4.54	3.58	3.01
Sumitomo Warehouse (9303)	Equity Capital	1,641	1,618	1,710	1,852	1,811
	Interest-bearing Debt	727	786	723	867	723
	Equity Ratio	54.2	53.8	55.9	54.2	56.2
	Interest-bearing Debt/EBITDA	3.85	3.78	3.75	4.27	3.83
	Debt/Equity Ratio	0.45	0.49	0.43	0.47	0.40
Shibusawa Warehouse (9304)	Equity Capital	386	386	408	419	422
	Interest-bearing Debt	383	362	360	365	363
	Equity Ratio	39.5	42.3	42.9	43.4	43.1
	Interest-bearing Debt/EBITDA	6.88	6.33	5.65	5.54	5.17
	Debt/Equity Ratio	0.99	0.94	0.89	0.87	0.86
Toyo Logistics (9306)	Equity Capital	169	168	178	187	192
	Interest-bearing Debt	116	124	126	139	136
	Equity Ratio	44.1	42.4	45.9	45.8	46.2
	Interest-bearing Debt/EBITDA	5.50	6.03	5.66	5.91	5.10
	Debt/Equity Ratio	0.77	0.81	0.77	0.75	0.71
Chuo Warehouse (9319)	Equity Capital	345	348	365	385	384
	Interest-bearing Debt	35	45	41	38	36
	Equity Ratio	81.3	80.1	80.7	81.4	81.8
	Interest-bearing Debt/EBITDA	1.35	1.56	1.37	1.24	1.18
	Debt/Equity Ratio	0.11	0.13	0.12	0.10	0.09
Yasuda Logistics (9324)	Equity Capital	651	604	609	660	662
	Interest-bearing Debt	227	251	247	280	286
	Equity Ratio	56.9	56.0	55.8	55.0	54.6
	Interest-bearing Debt/EBITDA	4.50	5.18	4.34	5.08	4.01
	Debt/Equity Ratio	0.36	0.43	0.42	0.43	0.43
Total	Equity Capital	6,482	6,292	6,391	6,862	6,910
	Interest-bearing Debt	3,505	3,888	3,843	3,986	3,836
	Equity Ratio	50.9	49.1	49.3	50.0	50.6
	Interest-bearing Debt/EBITDA	4.55	4.92	4.66	4.78	4.25
	Debt/Equity Ratio	0.54	0.62	0.60	0.58	0.56

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

<Reference>

Issuer: Mitsubishi Logistics Corporation

Long-term Issuer Rating: AA Outlook: Stable

Issuer: MITSUI-SOKO HOLDINGS Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: The Sumitomo Warehouse Co., Ltd.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: The Shibusawa Warehouse Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Toyo Logistics Co., Ltd.

Long-term Issuer Rating: BBB Outlook: Stable

Issuer: Chuo Warehouse Co., Ltd.

Long-term Issuer Rating: BBB+ Outlook: Stable

Issuer: Yasuda Logistics Corporation

Long-term Issuer Rating: BBB+ Outlook: Positive

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