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Highlights of Major Private Railroad 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 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

In FY2018, the 14 major private railroad companies subject to JCR's rating (collectively, the "Companies") carried 7,752,300,000 passengers in total, up 0.9% from the previous fiscal year. Commuter pass users and non-commuter pass users increased 1.1% year-on-year and 0.6% year-on-year, respectively. The figures indicate that this growth in the number of passengers was underpinned by employment conditions that remain favorable mainly in the metropolitan areas as well as factors such as increasing inbound travelers to Japan. The number of foreign travelers who visited Japan in 2018 increased 8.7% year-on-year to 31.19 million, renewing its record high and still showing an increasing trend even after 2019.

By area, the total number of passengers carried by the companies in Eastern Japan and by companies in Western Japan increased 1.1% year-on year and 0.6% year-on year, respectively, out of which the number of commuter pass users increased 1.2% year-on year and 1.0% year-on year, respectively, showing little difference between these two areas. Meanwhile, the number of non-commuter pass users carried by the companies in Eastern Japan increased 0.9% year-on-year while those carried by the companies in Western Japan remained almost the same presumably due to the impact from natural disasters occurred in the West Japan region including earthquakes and typhoons.

According to the 13 companies that have announced their FY2019 forecasts, the total number of their passengers is projected to increase 1.0% year-on-year. By area, these 13 companies in Eastern Japan expects a 1.1% year-on-year increase in the total number of passengers, a 1.0% year-on-year increase in commuter pass users and a 1.2% year-on-year increase in non-commuter pass users, while those in Western Japan expects a 1.0% year-on-year increase in total, with a 0.6% year-on-year increase and a 1.5% year-on-year increase in commuter pass users and non-commuter pass users, respectively. Excluding the number of non-commuter pass users in the Western Japan region where the impact from natural disasters in the previous fiscal year will be unavoidable, these 13 companies forecast almost the same growth rate as FY2018. Taking into account the factors such as their external environment which shows no significant changes and each company's conservative every-year forecasts, the number of passengers is likely to remain robust in FY2019 as well.

2. Financial Results

In FY2018, the Companies' combined operating revenues and operating income increased 3.1% year-on-year and 5.0% year-on-year to 7,777.7 billion yen and 731.9 billion yen, respectively, marking a record high for both figures. By segment, operating revenue and operating income from transportation business increased 0.9% year-on-year and 4.0% year-on-year to 2,139.8 billion yen and 325 billion yen, respectively. Operating revenue and operating income not reflecting internal transactions, etc. from other businesses (combined total of non-transportation segments) increased 4.0% year-on-year and 5.6% year-on-year to 6,239.6 billion yen and 414.4 billion yen, respectively. The number of passengers in transportation business is steadily growing owing to the favorable employment conditions and increasing inbound travelers, and the increased number of each company's express trains with surcharge is also working as one of the positive factors for the financial results. In other businesses, the real estate leasing segment and the hotel segment are showing strong performance.

Each area posted solid financial results as indicated in the total operating income from the transportation business which increased 2.6% year-on-year to 192.9 billion yen for the companies in Eastern Japan and 6.1% year-on-year to 132.1 billion yen for the companies in Western Japan, and operating income from other businesses which increased 1.4% year-on-year to 186.3 billion yen. As described above, the West Japan region experienced many natural disasters such as earthquakes and typhoons, but the impact on the financial results was limited thanks in part to early restoration of Kansai International Airport. The earrings growth rates for other businesses of the companies in Eastern Japan and for the transportation business of the companies in Western Japan are high, but that is mainly because of temporary factors such as a reactionary increase from loss on real estate valuation recorded by Keikyu and declined retirement benefit costs at Kintetsu.

The Companies' combined EBITDA increased 4.0% year-on-year to 1,309 billion yen, and the EBITDA margin continues to remain at a high level standing at 16.8% (16.9% in FY2017). On the back of the aggressive investment approach, the total investing cash flows reached 1,006.3 billion yen which exceeded the total operating cash flow of 965.6 billion yen. Consequently, interest-bearing debt has increased to 8,387 billion yen (partly estimated by JCR) from 8,263.6 billion yen recorded as of the end of FY2017. However, both the interest-bearing debt/EBITDA ratio and DER have improved to x6.4 and x1.5 from x6.6 and x1.6, respectively, from the previous fiscal year. By area, combined total of outstanding interest-bearing debt of the companies in Eastern Japan increased 2.1% to 4,947.4 billion yen, while that of the companies in Western Japan also increased 0.6% to 3,439.6 billion yen, both from the end of FY2017. It appears that the companies in Eastern Japan, such as TOKYU which initiated full-scale redevelopment projects in Shibuya and Sotetsu which will soon start the direct operation with East Japan Railway Company, made more active investments than the companies in Western Japan.

3. Highlights for Rating

For FY2019, the Companies' combined operating revenues are forecasted to increase 3.2% year-on-year to 8,024.3 billion yen while their combined operating income is projected to decline 3.0% year-on-year to 709.7 billion yen. By area, operating income for the companies in Eastern Japan and for those in Western Japan is expected to decline 3.2% year-on-year and 2.8% year-on-year to 404.6 billion yen and 305.1 billion yen, respectively. Reduction of additional fares by Keikyu and reaction to large gains from the sales of condominiums in FY2017 are major factors for the decline for the companies in Eastern Japan. On the other hand, 5 companies in Western Japan are expecting a fall in their revenues except for Nankai which is projected to earn from year-round sales at NAMBA SKY'O and see a reactionary increase from the loss on real estate valuation. Factors for the fall vary depending on the company, but many companies are expecting increases in depreciation costs and labor costs in railway business and reactionary drops from the gains from their condominium business in FY2017. However, JCR sees that it is unlikely for the current favorable business environment to significantly deteriorate in each region and that the Companies will be able to maintain high and stable cash generating capacity for now.

On the financial front, many companies are planning to continue high levels of capital investments. Acquisitions of properties for real estate leasing and projects associated with development of new hotels and redevelopment around base stations along their railway lines are presumed to be underway. Total capital-investment spending by the 13 companies that have announced their FY2018 forecasts is expected to increase 16.9% year-on-year. Consequently, combined interest-bearing debt for the 13 companies that have announced their forecasts (including companies that have announced their forecast for net interest-bearing debt) is projected to increase 2.6% year-on-year as of the end of FY2019. However, there is little concern that their financial standing will significantly deteriorate in light of their stable cash flow generating capacity.

Under their current medium-term management plans, the amount of strategic investments for the future growth account for 46%, almost a half, of the Companies' combined total of the investment amount. To adopt changes in a future business environment such as a future decline in population of residents who live along their railway lines, the Companies are aiming to maintain the population of these residents and create more traffic volume through efforts including developing areas along their railway lines and further cultivating tourist attractions near these lines while actively investing in projects to enhance their real estate business and hotel business. Meanwhile, there are some cases where companies have difficulties with acquiring properties with estimated hurdle rates due to the current rising real estate prices. In addition, risk control against investment is crucial for launching new business and overseas business. In light of possible changes in their business environment and investment policies in the future, though it is unlikely that a substantial risk will emerge under the current circumstances, JCR will closely monitor future outcomes including the details and the scale of investments as well as assumed and actual returns thereof.

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

(JPY100 mn)

		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
	FY2019F	80,243	3.2	43,512	4.2	36,731	2.0
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
	FY2019F	7,097	-3.0	4,046	-3.2	3,051	-2.8
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
	FY2018F	6,905	-4.3	3,932	-5.8	2,973	-2.4
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
	FY2019F	4,515	2.3	2,692	0.2	1,823	5.6

		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
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	83,870	1.5	49,474	2.1	34,396	0.6
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	
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	
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	

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

Note: FY2018 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: Stable

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

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