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Highlights of Three Japan Railway 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 3 Japan Railway ("JR") companies in the main island: East Japan Railway Company (security code: 9020, "JR East"), West Japan Railway Company (security code: 9021, "JR West") and Central Japan Railway Company (security code: 9022, "JR Central").

1. Industry Trend

For the total railway transportation revenue of the 3 JR companies in the mainland for FY2022 was 3,196.1 billion yen, up 41.5% over the year. Although it remained at a level lower by slightly more than 20% in a comparison with that for FY2018, pre-pandemic, the revenue has been showing a clear recovery trend since it hit the bottom, 1,849.4 billion yen for FY2020. By ticket type, commuter pass revenue and non-commuter pass revenue were 568.8 billion yen, up 3.6% over the year, and 2,627.2 billion yen, up 53.7% over the year, respectively.

By Shinkansen and conventional line, Shinkansen increased 66.1% and conventional line increased 19.9% over the year. For FY2020, under the COVID crisis, Shinkansen decreased as low as 67.0% from that of FY2018; however, it has made a consistent recovery since then. For the first half of FY2022, revenue from Shinkansen was down 32.5% from that in the first half of FY2018; however, for the second half of FY2022, where subsidies were provided for domestic travelers and progress in relaxation of requirements for foreigners entering Japan, it recovered to a decrease of 17.5% compared to that in the second half of FY2018.

On a quarterly basis comparison of railway transportation revenue for FY2022 over FY2018, a 28.1% decrease for the first quarter, a 28.0% decrease for the second quarter, a 18.8% decrease for the third quarter and a 15.2% decrease for the fourth quarter. The pace of narrowing the degree of decrease in non-commuter pass revenue became faster for the third quarter onward. This suggests prompt recovery of non-commuter pass passengers centering on Shinkansen.

For FY2023, combined railway transportation revenue of the 3 companies is projected to be 3,706.0 billion yen, up 16.0% over the year, in the announcement. The amount is down 10.2% from FY2018 level. Preconditions of the earnings projection each company disclosed were as noted below. JR East assumes, as fundamental demand in steady state, approximately 80% of pre-pandemic level for commuter pass demand in April 2024, nearly pre-pandemic level for non-commuter pass demand for conventional lines and approximately 90% of pre-pandemic level for Shikansen in December 2023. JR West assumes, in a comparison with pre-pandemic level, the revenue remains 92% for FY2023 onward for conventional lines in Kinki region, recovers up to around 90% at the end of FY2023 and maintains the level thereafter for Sanyo Shinkansen. JR Central assumes 85% and 90% of the pre-pandemic level for the first half and the second half of FY2023 respectively.

As for commuter pass passengers, a recovery speed has slowed down. Revenue will highly likely hover around a level lower than the pre-pandemic level by 20% continuously due partly to the impact of prevalence of teleworking. Since non-commuter pass revenue from medium-to-long long distance transportation centering on Shinkansen is influenced by impacts of prevalence of non-face-to-face meetings for business users and trend of domestic and foreign tourists, JCR will check these statuses going forward.

2. Financial Results

Total operating income of the 3 companies for FY2022 was 599.1 billion yen, turned into the black for the first time since FY2019. On an individual company basis, JR East and JR West for the first time since FY2019 and JR Central for two consecutive fiscal years ensuring the black figure in operating income.

By business segment for FY2022, total operating income of the transportation segment of the 3 companies was 338.8 billion yen (FY2021: an operating loss of 438.0 billion yen), and that of the related business segment (segments other than transportation segment) was 259.4 billion yen (FY2021: an operating income of 166.7 billion yen). Compared to the pre-pandemic level, operating income of the transportation segment remained at a level 70% lower; however, that for the related business segment recovered up to the FY2018 level. This was because some segments centering on the real estate continued solid performance, and also profit/loss of retail and hotel businesses improved and others factors. An impact of rising electricity prices was observed primarily in the railway business. JR East's transportation segment reported operating deficit for three consecutive fiscal years; however, degree of deficit substantially narrowed, thereby performance recovery can be confirmed by and large.

For FY2022, total operating cash flow was 1,342.4 billion yen (FY2021: 175.8 billion yen), showing recovery to around FY2019 level (1,384.0 billion yen). In relation to this, free cash flow was positive by 387.0 billion as cash flow from investing activities was negative by 955.4 billion yen. Total cash flow was positive for the first time since FY2018. This was large attributable to the fact that total actual capital investment of the 3 companies was squeezed to 1,274.7 billion yen from the initial plan of 1,562.0 billion yen.

The total equity ratio of the 3 companies was 32.2% at the end of FY2022. Although it declined more than 5 percentage points from the latest peak (37.8% at the end of FY2019); it has recovered after hitting the bottom, 31.1% at the end of the previous fiscal year.

3. Highlights for Rating

According to the performance forecast disclosed by the 3 companies for FY2023, the total operating revenue and operating income are projected to be 5,774.0 billion yen, up 11.0% on year, and 815.0 billion yen, up 36.0% on year, respectively. All the 3 companies continue to expect demand recovery primarily for the transportation business, and also indicate their intentions to continue cost reductions, on which they have been working from the past, again. They also incorporate an increase in revenue in the railway business from adoption of the barrier-free fee system (a new fare system with additional fees for access to barrier-free facilities in the stations). In JR Central's performance forecast, an increase in cost of repair entailing in relation to ending of reversal of allowance for the Shinkansen Project of major repair works, made until FY2022, is reflected.

For FY2023, total capital investment of the 3 companies is projected to be 1,619.0 billion yen, up 27.0% on year. All 3 companies respectively have ongoing large scale projects such as JR East advancing multiple development projects including Takanawa Gateway City (tentative name), JR West carrying out multiple redevelopment projects mainly in Osaka Station vicinity, and JR Central full-scale construction of the Chuo Shinkansen. On the other hand, they are also working on the initiatives to reduce the financial burden including liquidating real estate held in addition to curbing investments, which do not require urgency, and advancement of cost structure reforms. JCR will continue to watch an increase in cost efficiency and progress / outcome of initiatives to reduce financial burden along with demand recovery of railway passengers.

While maintaining a highly dense railway network in the metropolitan areas, JR East and JR West operates low profitable and unprofitable local lines. Before the pandemic, railway revenue from the metropolitan areas maintain the operation of local lines. This was because existing fare system only admits only the same fares to the companies like 3 JR companies in the main island, which operate multiple railway operation models different from: (i) intercity transportation by Shikansen; (ii) transportation using highly dense conventional line network in the metropolitan areas; and (iii) transportation by local lines. However, due to changes in behavior caused by the COVID crisis, railway revenue from the metropolitan areas, which was the largest earnings source, will highly unlikely recover to the pre-pandemic level. Under such circumstances, attention needs to be continuously paid to the trend in the system perspective other than individual company's efforts of reviewing earnings structure and improving cost efficiency such as reviewing the fare system centering on Shinkansen, implementation of trains requiring seat reservations. Various viewpoints relating to the system revision were suggested in outline of the summary of matters concerning railway fares and fare system (Ministry of Land, Infrastructure, Transportation and Tourism) published in July 2022. Although how these will be reflected in the future system revision is not yet determined; feasibility of the initiatives, speed of realizing the outcome and the impact on earnings of each company are the key factors from a medium term perspective.

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(Chart) Business performance of three JR Companies in the main island

(unit: JPY 100 mn, %)

		Operating Revenues	YoY	Operating Income	YoY	Equity Ratio
JR East (9020)	FY2021	19,789	12.1	-1,539	-	26.3
	FY2022	24,055	21.6	1,406	-	26.4
	FY2023F	26,960	12.1	2,700	92.0	
JR West (9021)	FY2021	10,311	12.1	-1,190	-	26.2
	FY2022	13,955	35.3	839	-	27.7
	FY2023F	15,120	8.3	1,150	37.0	
JR Central (9022)	FY2021	9,351	13.6	17	-	37.7
	FY2022	14,002	49.7	3,745	-	39.5
	FY2023F	15,660	11.8	4,300	14.8	
Total of 3 Companies	FY2021	39,451	12.5	-2,712	-	31.1
	FY2022	52,012	31.8	5,990	-	32.2
	FY2023F	57,740	11.0	8,150	36.0	

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

<Reference>

Issuer: East Japan Railway Company

Long-term Issuer Rating: AAAp Outlook: Stable

Issuer: West Japan Railway Company

Long-term Issuer Rating: AA+p Outlook: Stable

Issuer: Central Japan Railway Company

Long-term Issuer Rating: AAA Outlook: Stable

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