May 10, 2024

Highlights of Electric Power Companies' Financial Results for Fiscal Year Ended March 2024

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 2024 (FY2023) and earnings forecasts for FY2024 of Japan's ten electric power companies (former general electricity utilities; collectively, the "Companies"): Tokyo Electric Power Company Holdings, Incorporated ("TEPCO"), Chubu Electric Power Company, Incorporated ("Chubu Electric Power"), The Kansai Electric Power Company, Incorporated ("KEPCO"), The Chugoku Electric Power Company, Incorporated ("Chugoku Electric Power"), Hokuriku Electric Power Company ("Hokuriku Electric Power"), Tohoku Electric Power Company, Incorporated ("Tohoku Electric Power"), Shikoku Electric Power Company, Incorporated ("Shikoku Electric Power"), Kyushu Electric Power Company, Incorporated ("Kyushu Electric Power"), Hokkaido Electric Power Company, Incorporated ("Hokkaido Electric Power") and The Okinawa Electric Power Company, Incorporated ("Okinawa Electric Power").

1. Industry Trend

Power demand has been sluggish. According to the data on actual demand published by the Organization for Cross-regional Coordination of Transmission Operators, Japan ("OCCTO"), nationwide demand fell 0.9% over the year in the April 2023 to March 2024 period as the negative impact of power- and energy-saving efforts, as well as temperature factors such as unusually warm winter, outweighed the positive effects of recovery of production activities, increase in tourists, etc. following the normalization of economic activities after the COVID crisis. OCCTO predicts that power demand will turn around in FY2024. As a likely contributing factor, demand for electricity for industrial use will increase on the back of the construction of new and additional data centers and semiconductor factories, while economic growth is anticipated.

In the retail market, the sales share of power producer and suppliers ("PPSs") is declining after reaching its peak in the summer of 2021. It came to 17.5% in January 2024, versus the peak of 22.6% in August 2021. By sector, it was 23.3% in the low-voltage sector, 18.1% in the high-voltage sector and 5.5% in the extra high-voltage sector, as opposed to the respective peak of 27.5% in August 2022, 29.2% in July 2021 and 11.4% in August 2021. Wholesale electricity market prices have been weak. However, given recent volatile market trends, it appears to be becoming more difficult for PPSs to launch easy low price campaigns, and competition is expected to be lull for the time being. Meanwhile, with the aim of ensuring non-discrimination between domestic and foreign electricity wholesale transactions, the electricity procurement system is gradually changing, and there are some factors regarding the future competitive environment that require attention.

In the political aspect, 2024 falls on the year for updating the Basic Energy Plan. Even though key policies, including making renewable energy a primary source of power, are likely to remain unchanged, attention will be paid to whether the government can provide specific plans that will help increase the predictability of the parties concerned, including concrete measures regarding the use of nuclear power and the future composition of domestic power sources. Moreover, investigations and research into the 2024 Noto Peninsula Earthquake are now underway. Should new knowledge be acquired, it may affect the future screening activities, scope of the backfit system, disaster prevention and evacuation plans, etc. of the Nuclear Regulation Authority.

2. Financial Results

FY2023 results were favorable. For the Companies combined, simple addition of net sales fell 6.9% over the year to 23,960.0 billion yen due in part to a decline in the fuel cost adjustment amount. However, that of ordinary income turned around from the previous year's negative 813.9 billion yen to positive 2,702.8 billion yen. Eight of the Companies achieved new highs, resulting in a totally different picture from the previous year when large losses were posted. Contributing factors here while electricity rates are being revised include: a positive turn in the effects of the time-lag from the fuel cost adjustment system, rise in the utilization rate of nuclear power and decrease in supply and demand adjustment costs in the power transmission and distribution business. As regards net income/loss, all of the Companies attained net income; although some reported large extraordinary losses, including KEPCO due to the cancellation of the Wakayama Power Plant Construction Project and Hokuriku Electric Power due to damage to facilities caused by the 2024 Noto Peninsula Earthquake, they absorbed these losses with a sharp improvement in ordinary income/loss. Financial structure turned around. With profit accumulation driven by robust performance, equity ratio (before the assessment of equity content of hybrid securities for all of the Companies) as of March 31, 2024 was 22.6%, up from 19.0% a year before.

In comparison to JCR's assumptions at time of the rating review in July 2023, profit levels have risen, and the financial structure has improved. That said, the industry as a whole still has a number of investment projects ahead, including those related to nuclear power plants and carbon neutrality and those dealing with the aging of facilities in the power transmission and distribution business. In light of the outlook for financing requirements, JCR considers that some operators do not necessarily have sufficient financial capacity.

3. Highlights for Rating

JCR looks at trends in ordinary income excluding time-lag effects. All of the Companies but TEPCO have released business forecasts for FY2024. On the whole, the income is expected to decline from the previous year. This appears to be attributable mainly to the deterioration of time-lag effects, and, without this factor, changes in the income will likely vary among the nine companies, depending on the restart of nuclear power plants and costs incurred in the supply and demand adjustment market in the power transmission and distribution business.

Given improvement in the income/expense structure due to rate revisions implemented in the past, the Companies will likely maintain stable earnings capacity over the medium term. Yet, in light of the weakening yen and geopolitical risks in Russia, Ukraine, the Middle East and other regions, there are concerns that fuel prices and wholesale electricity market prices will fluctuate wildly. As regard the power transmission and distribution business, the costs of primary and secondary balancing power trading, which will be introduced in the supply and demand adjustment market in FY2024, are expected to affect the Companies' profitability. Even though these costs can be recovered in the future, they may be incurred upfront. Therefore, their impact on the earnings in the short run requires attention.

On the financial front, JCR first looks at the level of equity capital and the degree of recovery in equity ratio. Profit level is expected to remain relatively good into FY2024. Many of the Companies continue to aim at improving equity ratio as a management target in light of financial deterioration in recent years and are strongly committed to strengthening the financial base in JCR's view. Meanwhile, interest-bearing debt has risen sharply over the past few years due to an increase in working capital and business downturn. As a number of investment projects are anticipated into the future as mentioned above, JCR will also keep an eye on the levels of free cash flow and interest-bearing debt, D/E ratio, etc. to determine how far the financial structure has improved. On a separate note, the transitional measure allowing the new issuance of corporate bonds with general security is scheduled to end in March 2025. Although its impact on JCR's rating for the Companies is limited at this point, JCR will, as before, watch whether smooth financing will be carried out.

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(Chart) Consolidated Financial Results

(JPY 100 mn, %)

	FY	Net Sales	YoY Change	Ordinary Income	YoY Change	Net Income	Equity Ratio
TEPCO (9501)	FY2022	81,122	-	-2,853	-	-1,236	22.8
	FY2023	69,183	-14.7	4,255	-	2,678	24.1
	FY2024F	-	-	-	-	-	-
Chubu Electric Power (9502)	FY2022	39,866	47.4	651	-	382	31.9
	FY2023	36,104	-9.4	5,092	681.7	4,031	36.4
	FY2024F	36,000	-0.3	2,150	-57.8	1,700	-
KEPCO (9503)	FY2022	39,518	38.6	-66	-	176	20.4
	FY2023	40,593	2.7	7,659	-	4,418	25.2
	FY2024F	44,500	9.6	3,600	-53.0	2,600	-
Chugoku Electric Power (9504)	FY2022	16,946	49.1	-1,067	-	-1,553	11.1
	FY2023	16,287	-3.9	1,940	-	1,335	14.6
	FY2024F	14,000	-14.0	650	-66.5	500	-
Hokuriku Electric Power (9505)	FY2022	8,176	33.2	-937	-	-884	12.9
	FY2023	8,082	-1.1	1,079	-	568	16.6
	FY2024F	7,950	-1.6	450	-58.3	350	-
Tohoku Electric Power (9506)	FY2022	30,072	42.9	-1,992	-	-1,275	10.5
	FY2023	28,178	-6.3	2,919	-	2,261	15.4
	FY2024F	28,300	0.4	1,900	-34.9	1,300	-
Shikoku Electric Power (9507)	FY2022	8,332	29.8	-225	-	-228	18.3
	FY2023	7,874	-5.5	800	-	605	22.1
	FY2024F	8,520	8.2	480	-40.1	360	-
Kyushu Electric Power (9508)	FY2022	22,213	27.4	-866	-	-564	10.4
	FY2023	21,394	-3.7	2,381	-	1,664	15.5
	FY2024F	22,000	2.8	1,100	-53.8	800	-
Hokkaido Electric Power (9509)	FY2022	8,888	34.0	-292	-	-221	11.7
	FY2023	9,537	7.3	873	-	662	14.9
	FY2024F	8,760	-8.2	370	-57.6	430	-
Okinawa Electric Power (9511)	FY2022	2,235	26.8	-487	-	-454	23.4
	FY2023	2,363	5.8	25	-	23	23.4
	FY2024F	2,275	-3.8	68	164.8	50	-
Total	FY2022	257,370	-6.9	-8,139	-	-5,860	19.0
	FY2023	239,600	41.7	27,028	-	18,248	22.6
	FY2024F	-	-	-	-	-	-

Notes:
- FY2024F is the forecast of individual companies.
- Equity content of hybrid securities is not considered.
Source: Prepared by JCR based on financial materials of above companies (as of May 10, 2024)

<Reference>

Issuer: Tokyo Electric Power Company Holdings, Incorporated

Long-term Issuer Rating: A Outlook: Stable

Issuer: Chubu Electric Power Company, Incorporated

Long-term Issuer Rating: AA Outlook: Stable

Issuer: The Kansai Electric Power Company, Incorporated

Long-term Issuer Rating: AA Outlook: Stable

Issuer: The Chugoku Electric Power Company, Incorporated

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Hokuriku Electric Power Company

Long-term Issuer Rating: AAp Outlook: Stable

Issuer: Tohoku Electric Power Company, Incorporated

Long-term Issuer Rating: AA Outlook: Stable

Issuer: Shikoku Electric Power Company, Incorporated

Long-term Issuer Rating: AAp Outlook: Stable

Issuer: Kyushu Electric Power Company, Incorporated

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Hokkaido Electric Power Company, Incorporated

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

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