

## Highlights of Three Japan Railway Companies' Financial Results for Fiscal Year Ended March 2020

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 2020 (FY2019) and earnings forecasts for FY2020 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 and Impact of COVID-19 Pandemic

The total railway passenger traffic revenues of 3 JR companies in the main island for FY2019 decreased 2.7% year on year to 4,015.2 billion yen, marking the first drop in revenues since 2009. In the same comparison, commuter pass revenues increased 0.6% while non-commuter pass revenues decreased 3.4%. Total railway passenger traffic revenues had been steadily, achieving a 1.4% rise for the nine-month period ended December 31, 2019, but fell 15.6% from the previous year in the fourth quarter (3 months) due to the impact of COVID-19 pandemic. In the fourth quarter, commuter pass revenues increased 0.6% while non-commuter pass revenues significantly decreased by 19.0%. In particular, shinkansen non-commuter pass revenues shrank 20%. This is attributable to a substantial decrease in demand from sightseers (including inbound tourists) and business persons in tandem with the pandemic. Impacts can be observed in related businesses, such as a significant fall in occupancy rates in the hotel business, a sales decrease in the distribution business as well as suspension of operation at facilities in the commercial facility leasing business.

The 3 companies' forecasts for railway passenger traffic revenues for FY2020 are undecided. Looking at announced monthly status in April, the commuter pass revenues of JR East and JR West decreased by slightly less than 50% year on year, non-commuter pass revenues fell by between 70%-plus and 90%-plus, and the passenger volume of JR Central's Tokaido Shinkansen decreased by 89%. This is attributable to the impact of the declaration of the state of emergency issued to Tokyo and six prefectures including Osaka Prefecture on April 7 and the following expansion of the declaration nationwide on April 16.

Given a thorough curfew after the emergency declaration, among others, in the related businesses also, JCR believes that the current situation in April have worsened more than in March as shown by factors such as a decline in hotel occupancy rates and a fall in sales in the distribution business.

### 2. Financial Results

The total operating revenues of the 3 companies for FY2019 decreased 1.7% year on year to 6,299.4 billion yen and the operating income fell 13.9% to 1,197.5 billion yen. Operating revenues and operating income had been steady, respectively achieving 1.6% and 1.0% year-on-year increases for the nine-month period ended December 31, 2019. However, for the fourth quarter, the 3 companies reported an 11.5% decrease in operating revenues and an operating loss of 32.6 billion yen (173.6 billion yen in profit in the same period last year) affected by the COVID-19 pandemic. This fourth quarter's results mainly lead decreases in revenues and incomes. By segment, operating income in the transportation business fell 14.7% in FY2019, while that in related businesses (total of segments other than the transportation business) decreased 8.8%. This suggests the strong impact of the COVID-19 pandemic on the former. Total net income attributable to owners of the parent was 685.5 billion yen, down 18.1% from a year earlier. The main reason for the increased decline rate from the operating profit level was JR East's recording of extraordinary losses totaling 32.7 billion yen in disaster-damage losses and provision for allowance for disaster-damage losses.

Total operating cash flow reached 1,384 billion yen for FY2019, down 169.8 billion yen from the previous period. On the other hand, cash flow from investing activities increased by 83.4 billion yen to 1,522.7 billion yen, so free cash flow (cash flow from operating activities minus cash flow from investing activities) was negative by 138.6 billion yen in FY2019, compared to positive by 114.5 billion

yen in FY2018. Increases in long-term debt and the reversal of cash and deposits were appropriated for the negative portion of free cash flow. Total long-term debt (interest-bearing debt for JR East only) grew to 9,177.2 billion yen, up 98.4 billion yen or 1.1%, year on year, and total cash and cash equivalents decreased 155.5 billion yen.

As a consequence, the ratio of interest-bearing debt to EBITDA for FY2019 worsened to 4.7 times from 4.3 times in FY2018, but DER at the end of the same period improved to 1.1 times from 1.2 times.

### 3. Highlights for Rating

With their FY2020 results forecasts undisclosed, the 3 companies intend to disclose them promptly when forecasts become possible. As the railway business is an equipment industry (capital-intensive industry), fluctuations in operating rates have a large impact on profits. In addition, given that the transportation business accounts for a high percentage of operating income (80.8% in FY2019 in the total of the 3 companies), it is important to follow the status of the railway business on a monthly basis in order to understand results trends in FY2020. In the short term, JCR is focusing on the recovery in railway use triggered by the lifting of the emergency declaration, and over the medium term, on factors such as the impacts of the recovery in inbound demand, the penetration of "new lifestyles" on railway use, and the attraction of commercial facilities. For Shinkansen lines, which makes a particularly large contribution to income, attention should be paid to recovery in use driven by demand for tourism in Japan and overseas as well as for business use. Related businesses mainly consist of the commercial facility rental and hotel businesses. With facilities located adjacent to line-side base stations and large-scale terminals, the businesses are targeting railway passengers as main users. Accordingly, the state of attracting customers to commercial facilities and the occupation rates of hotels are highly likely to recover at the same time with the state in the railway business, but the extent of the recovery would differ depending on the regionality and the type of business.

JR East, JR West and JR Central are respectively promoting its group management vision "Move Up 2027," the group's medium-term management plan ending in FY2022, and the Chuo Shinkansen plan. In the present state, revision of these plans is not assumed. In these plans, the companies intend to make capital investments above the conventional levels. JR East and JR West are assuming phases where long-term debt expanding larger than the current one in the medium term. That said, these companies have a strong financial base, and a current fall in ability to generate cash flow is unlikely to immediately cause significant deterioration in financial conditions. With regards to the Chuo Shinkansen plan of JR Central, reserves for funds to be allocated to the construction costs for Chuo Shinkansen (long-term reserves for the Chuo Shinkansen construction) are accumulating, while long-term, fixed, and low-interest work funds being raised ahead of schedule.

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(Chart 1) Consolidated business performance of three JR Companies in the main island

(JPY 100 mn, %)

		Operating Revenues	YoY	Operating Income	YoY	Interest-bearing debt*
JR East (9020)	FY2017	29,501	2.4	4,812	3.2	31,796
	FY2018	30,020	1.8	4,848	0.7	31,637
	FY2019	29,466	-1.8	3,808	-21.5	33,123
JR West (9021)	FY2017	15,004	4.1	1,913	8.5	10,322
	FY2018	15,293	1.9	1,969	2.9	10,640
	FY2019	15,082	1.4	1,606	-18.4	10,189
JR Central (9022)	FY2017	18,220	3.7	6,620	6.9	48,562
	FY2018	18,781	3.1	7,097	7.2	48,511
	FY2019	18,446	-1.8	6,561	-7.6	48,460
Total of 3 Companies	FY2017	62,726	3.2	13,346	5.7	90,680
	FY2018	64,094	2.2	13,915	4.3	90,788
	FY2019	62,994	-1.7	11,975	-13.9	91,772

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

Note: Long-term debt for JR West and JR Central

<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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