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# Highlights of Major Private Railroad 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 Japan's 14 major private railroad companies (collectively, the "Companies"):

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) in the eastern Japan area; and 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) in the western Japan area.

## 1. Industry Trend

Total railway transportation revenues of the Companies rated by JCR came to 1,065.2 billion yen in FY2022, up 14.6% from FY2021 but 16.4% below the level in FY2018 before the COVID crisis began having full impact. Of this total, 414.6 billion yen was revenues from commuter pass passengers, up 4.1% from FY2021 but 18.7% below the FY2018 level, and 650.6 billion yen was those from non-commuter pass passengers, up 22.6% from FY2021 but 14.9% below the FY2018 level. The rate of decline from FY2018 on a quarterly basis was 18.1%, 19.3%, 14.7% and 13.5% for the first, second, third and fourth quarter, respectively, which shows that the recovery trend accelerated in the second half when border control measures on visitors from overseas were eased.

By region, recovery has been slow in the eastern Japan area for revenues from commuter pass passengers and the western Japan area for revenues from non-commuter pass passengers, but trends in railway transportation revenues, the sum of the above revenues, show no big differences between the areas. Slow recovery in revenues from commuter pass passengers in the eastern Japan area is probably due to the fact that a high teleworking rate is leading to a relatively large shift to non-commuter transportation. That in revenues from non-commuter pass passengers in the western Japan area may be explained by the fact that Chinese tourists, who appear to account for a fairly large part of inbound tourists, especially in the Kinki region, have not been really coming back.

Total railway transportation revenues based on available data from 13 of the Companies are forecast at 1,173.3 billion yen for FY2023, up 12.1% from FY2022 but 6.4% below the FY2018 level, incorporating such factors as a turnaround in the number of passengers carried and revenue growth with the revision of railway fares and the launch of the railway station barrier-free fare system, which have already been carried out, or will be carried out, by many of the Companies. Of this amount, 441.7 billion yen will be revenues from commuter pass passengers, and 731.6 billion yen will be those from non-commuter pass passengers, up 8.5% and 14.4% from FY2022 but 12.0% and 2.6% below the FY2018 level, respectively. While there structurally remains the impact of work from home, etc. on revenues from commuter pass passengers, revenues from non-commuter pass passengers are expected to return close to the pre-COVID level.

Meanwhile, higher power costs are placing downward pressure on the Companies' profits. Additional fare revisions on the grounds of higher power costs are hardly likely under the current circumstances, and the Companies have expressed their intension to address the issue through cost reductions. They have already been taking steps to structurally reduce fixed costs amid the COVID crisis, including the revision of time tables, optimization of personnel deployment and review of timing for train car renovation/maintenance cycles. When some cost items are expected to increase as demand picks up, it is vital for the Companies to keep working to increase the effectiveness of structural reforms.

For businesses other than transportation, the real estate business centering on leasing remains stable. Hotel occupancy rates, the number of visitors to department stores, retail stores and leisure facilities, etc. are tending to rise. In particular, the hotel business was severely affected by the COVID crisis as revenues from inbound tourists were lost but returned to profitability in the second to third quarter of FY2022 for many of the Companies. Looking ahead, while attention must be paid to how the earnings will be affected by a decline in demand because of the end of subsidies to domestic travelers, which have helped boost demand, they are expected to improve with an increase in contribution from inbound tourism.

2. Financial Results

Operating revenue and operating income of the Companies combined climbed 26.5% and 237.9% over the year to 7,528.6 billion yen and 453.8 billion yen in FY2022, respectively.

In the transportation business, operating revenue improve 14.3% to 1,820.5 billion yen, while operating income of 89.9 billion yen was attained, as opposed to the previous year's operating loss of 44.7 billion yen. Operating income was reported for the first time in three years but is still 72.3% below the FY2018 level. Recovery in operating income is slower than for railway transportation revenues largely due to a rise in the power and other costs, as mentioned earlier.

For other businesses, operating revenue and operating income jumped 30.9% and 103.2% to 5,708.1 billion yen and 363.8 billion yen, respectively. While these figures are also affected by Kintetsu Group Holdings' acquisition of Kintetsu World Express, Inc. through a tender offer, without this factor, operating revenue and operating income come to 4,997.2 billion yen and 340.5 billion yen, up 14.6% and 90.2%, respectively; earnings improvement with a turnaround in hotel occupancy rates and so forth can be observed.

Equity capital of the Companies combined as of March 31, 2023 was 5,615.7 billion yen, up 7.5% from a year before, and equity ratio stood at 28.6% as of the same date, as opposed to 27.9% a year before. Equity capital has been growing constantly with profit accumulation since hitting bottom at March 31, 2021, consequently improving the financial structure. Free cash flows, i.e. cash flows from operating and investing activities, of the Companies combined for FY2022 were positive 394.8 billion yen. The Companies are all bringing back investments for maintenance and upgrading, which have been contained amid the COVID crisis, to the previous levels and accelerating growth investments, but the improvement of cash flow generation capacity had a greater impact for many of them in FY2022.

3. Highlights for Rating

Operating revenue and operating income of the Companies combined for FY2023 are expected to rise for three years in a row since hitting bottom in FY2020 to 8,151.8 billion yen and 538.8 billion yen with year-on-year growth of 8.3% and 18.7%, respectively. Major positive factors here include recovery in demand for railways, hotels, etc. and revenue growth thanks to the revision of railway fares and the launch of the railway station barrier-free fare system, while higher energy costs will work as a primary negative factor.

JCR will look at the following points in making rating decisions for the time being.

(i) Degree of recovery in operating income and institutional moves

If energy costs stay at the current levels, they will likely be absorbed by the positive effects of demand recovery, revision of railway fares, launch of the railway station barrier-free fare system, cost reductions, etc. Even in the medium run, operating income is expected to improve gradually. That said, many still believe that the number of commuter pass passengers will not return to the pre-COVID level, and changes in energy costs are unpredictable. JCR is watching whether the Companies can assess the degree of future demand recovery and effectiveness of their own measures and accelerate the improvement of operating income.

In addition to these individual companies' efforts, continued attention should also be paid to institutional moves. The interim report on future railway fare and service charge systems released by the Ministry of Land, Infrastructure, Transport and Tourism in July 2022 presents various viewpoints regarding system revisions. Although how these viewpoints will be reflected in system reforms going forward has not been decided, JCR will nevertheless look at, from a medium-term standpoint, the feasibility of relevant measures, how quickly the effects of such measures will be realized and how the Companies' earnings will be affected.

(ii) Enhancement of financial position

Equity capital is now greater than the pre-COVID level. Even though financial indicators like equity ratio, D/E ratio and ratio of interest-bearing debt to EBITDA are still below the pre-COVID levels because interest-bearing debt has increased amid the COVID crisis and earnings capacity and cash flow generation capacity are still on the way to full recovery, they are nevertheless improving from the bottom hit in FY2020.

That said, when the impact of the COVID crisis has almost run its course, the Companies are revealing their growth strategies. In particular, those with large redevelopment projects underway or slated to start may keep facing investment requirements far exceeding the operating cash flow. Therefore, it is vital to mitigate its impact on the financial base by restoring cash flow generation capacity, and thus JCR will keep an eye on the status of demand recovery as well as progress in the Companies' measures. Also, while large-scale projects are underway, it is important to reduce financial burdens by carefully examining investment details and schedules, etc.

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

(JPY100 mn, %, times)

| | | The Companies' Total | YoY Change | Eastern Japan's Total | YoY Change | Western Japan's Total | YoY Change |
|---|---|---|---|---|---|---|---|
| Operating Revenue | FY2018 | 77,777 | 3.1 | 41,764 | 3.7 | 36,013 | 2.5 |
| | FY2019 | 77,075 | -0.9 | 41,931 | 0.4 | 35,143 | -2.4 |
| | FY2020 | 56,726 | -26.4 | 31,345 | -25.2 | 25,381 | -27.8 |
| | FY2021 | 59,524 | 4.9 | 31,366 | 0.1 | 28,157 | 10.9 |
| | FY2022 | 75,286 | 26.5 | 34,718 | 10.7 | 40,567 | 44.1 |
| Operating Income | FY2018 | 7,319 | 5.0 | 4,181 | 6.0 | 3,138 | 3.7 |
| | FY2019 | 6,242 | -14.7 | 3,495 | -16.4 | 2,746 | -12.5 |
| | FY2020 | -2,631 | - | -1,815 | - | -816 | - |
| | FY2021 | 1,343 | - | 522 | - | 820 | - |
| | FY2022 | 4,538 | 237.9 | 2,069 | 296.0 | 2,468 | 200.9 |
| Ordinary Income | FY2018 | 7,219 | 5.8 | 4,173 | 7.4 | 3,045 | 3.7 |
| | FY2019 | 6,047 | -16.3 | 3,435 | -17.8 | 2,611 | -14.3 |
| | FY2020 | -2,668 | - | -2,015 | - | -652 | - |
| | FY2021 | 1,828 | - | 601 | - | 1,226 | - |
| | FY2022 | 4,776 | 161.3 | 2,209 | 267.0 | 2,567 | 109.4 |
| Net Income | FY2018 | 4,414 | -0.8 | 2,686 | -1.0 | 1,727 | -0.5 |
| | FY2019 | 3,326 | -24.6 | 1,807 | -32.7 | 1,519 | -12.0 |
| | FY2020 | -4,355 | - | -2,913 | - | -1,441 | - |
| | FY2021 | 1,575 | - | 605 | - | 970 | - |
| | FY2022 | 4,206 | 167.1 | 2,155 | 256.2 | 2,051 | 111.5 |

| | | The Companies' Total | YoY Change | Eastern Japan's Total | YoY Change | Western Japan's Total | YoY Change |
|---|---|---|---|---|---|---|---|
| EBITDA | FY2018 | 13,090 | 4.0 | 7,699 | 4.8 | 5,391 | 2.9 |
| | FY2019 | 12,343 | -5.8 | 7,254 | -5.9 | 5,088 | -5.7 |
| | FY2020 | 3,547 | -71.3 | 2,043 | -71.8 | 1,504 | -70.4 |
| | FY2021 | 7,299 | 105.8 | 4,200 | 105.6 | 3,098 | 106.0 |
| | FY2022 | 10,546 | 44.5 | 5,666 | 34.9 | 4,879 | 57.4 |
| Equity Capital | FY2018 | 54,821 | 5.9 | 31,800 | 6.3 | 23,021 | 5.4 |
| | FY2019 | 55,352 | 1.0 | 31,797 | 0.0 | 23,554 | 2.3 |
| | FY2020 | 51,208 | -7.5 | 29,060 | -8.6 | 22,147 | -6.0 |
| | FY2021 | 52,240 | 2.0 | 29,198 | 0.5 | 23,041 | 4.0 |
| | FY2022 | 56,157 | 7.5 | 31,384 | 7.5 | 24,772 | 7.5 |
| Interest-bearing Debt | FY2018 | 83,852 | 1.5 | 49,430 | 2.0 | 34,422 | 0.7 |
| | FY2019 | 86,226 | 2.8 | 51,219 | 3.6 | 35,006 | 1.7 |
| | FY2020 | 94,275 | 9.3 | 54,482 | 6.4 | 39,793 | 13.7 |
| | FY2021 | 92,308 | -2.1 | 53,653 | -1.5 | 38,654 | -2.9 |
| | FY2022 | 93,443 | 1.2 | 52,676 | -1.8 | 40,767 | 5.5 |
| Equity Ratio | FY2018 | 30.2 | | 30.7 | | 29.5 | |
| | FY2019 | 30.1 | | 30.2 | | 29.9 | |
| | FY2020 | 27.3 | | 27.6 | | 27.0 | |
| | FY2021 | 27.9 | | 27.8 | | 28.1 | |
| | FY2022 | 28.6 | | 29.3 | | 27.8 | |
| D/E Ratio | FY2018 | 1.5 | | 1.6 | | 1.5 | |
| | FY2019 | 1.7 | | 1.6 | | 1.5 | |
| | FY2020 | 1.8 | | 1.9 | | 1.8 | |
| | FY2021 | 1.8 | | 1.8 | | 1.7 | |
| | FY2022 | 1.7 | | 1.7 | | 1.6 | |
| Ratio of Interest-bearing Debt to EBITDA | FY2018 | 6.4 | | 6.4 | | 6.4 | |
| | FY2019 | 7.0 | | 7.1 | | 6.9 | |
| | FY2020 | 26.6 | | 26.7 | | 26.5 | |
| | FY2021 | 12.6 | | 12.8 | | 12.5 | |
| | FY2022 | 8.9 | | 9.3 | | 8.4 | |

Notes:

1. Change rates from FY2020 operating revenue to FY2021 operating revenue include impact from accounting standards on the revenue recognition standard.
2. FY2022 figures for Interest-bearing Debt, D/E Ratio and Ratio of Interest-bearing Debt to EBITDA are JCR's estimates.

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

<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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