

Two Major Airlines Announce FY2020 Results—Trends in Future Business Recovery to Be Closely Watched

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement of financial results for the fiscal year ended March 2021 (FY2020) by Japan Airlines Co., Ltd. (security code: 9201) and ANA HOLDINGS INC. (security code: 9202)

- (1) Japan Airlines Co., Ltd. ("JAL") and ANA HOLDINGS INC. ("ANA HD") respectively announced their financial results for FY2020 on May 7 and April 30. JAL reported a loss before financing and income tax of 398.3 billion yen and loss attributable to owners of parent of 286.6 billion yen (IFRS), as opposed to 88.8 billion yen and 48.0 billion yen in profit, respectively, for the previous year. ANA HD, too, reported an operating loss of 464.7 billion yen and net loss attributable to owners of the parent of 404.6 billion yen, versus 60.8 billion yen and 27.6 billion yen in income, respectively, for the previous year. As a primary factor behind this loss reporting, passenger demand slumped for both international and domestic operations due to the COVID-19 pandemic. As regards the forecast for FY2021, JAL stated that it is unable to provide the figures due to the difficulty of reasonable and accurate estimation, while ANA HD announced that it expects positive recovery to 28.0 billion yen in operating income and 3.5 billion yen in net income attributable to owners of the parent.
- (2) While ending FY2020 with the largest net loss ever, both JAL and ANA HD (collectively, the "Two Companies") made public offerings in the second half, and ANA HD took out subordinated loans in addition. As of March 31, 2021, equity ratio stood at 45.0% for JAL, down from 51.2% at the previous year-end, and net DER was 0.1x, versus the previous year-end's net debt-free position; for ANA HD, equity ratio after assessment of equity content of subordinated loans and net DER were 37.6% and 0.4x, as opposed to 41.4% and 0.6x at the previous year-end. As these figures show, the Two Companies are successfully avoiding substantial deterioration and maintaining decent financial soundness. Given that sufficient liquidity on hand is ensured and that financial institutions remain supportive, JCR finds no particular concerns about financing. Moreover, the Two Companies have implemented various cost-cutting measures to reduce fixed costs, thereby lowering their break-even points. As the delayed vaccination rollout in Japan is beginning to make some progress, the Two Companies' performance is projected to improve from FY2021 on with recovery in passenger demand.
- (3) That said, demand recovery is still slow as of now, allowing no optimistic prospects. The number of passengers is picking up to a certain extent for domestic flights, and yet keeps fluctuating due to the COVID situation, the state of emergency declaration, etc. The number for international flights stays at around 5% of the pre-COVID level because of border closure and travel restrictions. Moreover, with the spread of teleconferences, etc., it is feared that business travel demand, which previously was the core earnings driver, may remain weak over the medium and long term, resulting in lower profitability than before. Even on the financial front, despite successful control of capital impairment, interest-bearing debt has grown much larger on the back of constant asset outflows. As such, JCR considers that there still is downward pressure on the Two Companies' creditworthiness and will therefore keep an eye on future trends in passenger demand, progress in business recover, etc. to be reflected in the rating.

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<Reference>

Issuer: Japan Airlines Co., Ltd.

Long-term Issuer Rating: A Outlook: Negative

Issuer: ANA HOLDINGS INC.

Long-term Issuer Rating: A Outlook: Negative



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