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Highlights of Electric Power Companies' Financial Results for Fiscal Year Ended March 2022

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 2022 (FY2021) and earnings forecasts for FY2022 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 is picking up. According to the actual data on demand published by the Organization for Cross-regional Coordination of Transmission Operators, Japan, nationwide demand turned around in FY2021 with 2.1% growth from the previous year thanks primarily to recovery in the industrial sector as a result of the resumption of economic activities, etc. with less COVID impacts. Looking at the data by season, demand remained steady from spring to autumn and, while being affected by the adjustment of car production, etc. due to semiconductor shortages after that, grew in winter because of extremely low temperatures.

In terms of competition, the sales share of new power suppliers is declining after reaching its peak in the summer of 2021. It came to 24.2% in the low-voltage sector and 26.9% in the high-voltage sector in February 2022, as opposed to the respective peak of 24.8% in August 2021 and 29.2% in July 2021; total share including the extra high-voltage sector was 21.9%, versus the peak of 22.6% in August 2021. The primary factor behind this is a surge in market prices of electricity, owing to tight supply-demand balance. According to Teikoku Databank, there were 14 bankruptcies of new power suppliers in FY2021, seven times more than the previous year's, which indicates tough business conditions faced by these suppliers who procure electricity mostly from the wholesale market. Moreover, an increasing number of new power suppliers no longer accept new contracts or have withdrawn from the business. Some of former general electricity utilities have even suspended the acceptance of new contracts for electricity rate plans for corporate customers because they are unable to secure capacity for additional power supply. Such situations may continue for a while, and price competition is expected to become lull.

The announcement of the FY2021 financial results has provided a good opportunity to reconsider institutional issues concerning electric power as well as energy safety and security. During the five years since the full liberalization of the electricity retail market, price competition has been encouraged to revitalize the market. However, the market is now seeing a surge in power bills and the bankruptcy and business withdrawal of new power suppliers, while former general electricity utilities have fallen into a situation where they are unable to reaccept the defected customers. With no winners, it cannot be concluded that adjustment forces in the market are fully working. Although the power source procurement structures of new power suppliers and managerial issues of individual companies concerning risk management are drawing much attention, as a factor underlying all these matters, power supply capacity has become small nationwide with a delay in the restart of nuclear power stations and the suspension and retirement of inefficient thermal power stations over the last few years.

2. Financial Results

Ordinary income of the Companies combined fell for two years in a row in FY2021 due to a further drop in profitability resulting from a time lag in fuel cost adjustment, additional expenses for power procurement, etc. as well as to earthquakes and droughts. Even though there were factors pushing up the income, including sales growth, a rise in nuclear power utilization rate and cost reductions with the containment of repair expenses and change in the depreciation method, the aforementioned drop in profitability with time lag was too sharp to be offset by such positive factors. Moreover, while some of the Companies reversed drought reserve because of the deteriorated ordinary income/loss situation, half of the Companies reported net loss. On the other hand, in terms of the profit level excluding profitability with time lag, those who are taking a lead in the restart of nuclear power stations significantly improved net income. As such, the industry as a whole is facing a tough time, but the difference in earnings capacity is becoming wider among the Companies.

Financial standing worsened slightly. As interest-bearing debt keep growing because of recent years' large capital expenditures, combined equity ratio as of the end of FY2021 dropped to 21.1% from 22.8% a year before due to the impairment of equity capital with the reporting of net loss. That said, some of the Companies are successfully mitigating the deterioration of financial indicators to a certain extent in recent years by raising funds with equity content. Large capital expenditures for safety measures for nuclear power stations, construction/replacement of thermal power stations, measures for aging power transmission and distribution facilities, etc. are expected to continue. Given the near-term profit outlook, an increase in working capital requirements due to high fuel prices and so forth, cash flow generation capacity is hardly likely to expand, and the financial structure is most likely to rather weaken with the increase in interest-bearing debt.

3. Highlights for Rating

The Companies except KEPCO have yet to determine their FY2022 forecasts partly for the reason of unpredictable trends in fuel prices, etc. because of the Russia-Ukraine situation. KEPCO expects ordinary loss due to surging fuel prices, rising electricity procurement costs, etc. while nuclear power utilization rate is falling.

Trends in profitability with time lag is assumed to affect the FY2022 results, but changes in fossil fuel prices are still unstable, which suggests that the industry as a whole is likely to struggle. Given also that the financial base may be hard hit, for instance, by the impairment of equity capital as a result of earnings deterioration, the point of focus for the time being will be the level of equity capital. JCR will also continue watching the profit level excluding profitability with time lag and changes in free cash flow. On a separate note, it should be taken into consideration that positive factors of the earnings environment will become evident as recovery in power demand from the COVID crisis, launch of the new wheeling charge system and capacity market and a decrease in the competitiveness of new power suppliers are projected in the medium run.

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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	FY2020	58,668	-6.0	1,898	-28.1	1,808	25.8
(9501)	FY2021	53,099	-	449	-	56	24.9
	FY2022F	-	-	-	-	-	-
Chubu Electric Power	FY2020	29,354	-4.3	1,922	0.2	1,472	35.7
(9502)	FY2021	27,051	-7.8	-593	-	-430	32.7
	FY2022F	-	-	-	-	-	-
KEPCO	FY2020	30,923	-2.9	1,538	-27.3	1,089	20.9
(9503)	FY2021	28,518	-7.8	1,359	-11.6	858	19.2
	FY2022F	34,200	19.9	-1,000	-	-750	-
Chugoku Electric Power	FY2020	13,074	-3.0	300	-24.5	145	19.4
(9504)	FY2021	11,366	-13.1	-618	-	-397	17.0
	FY2022F	-	-	-	-	-	-
Hokuriku Electric Power	FY2020	6,394	1.8	123	-46.8	68	21.2
(9505)	FY2021	6,137	-4.0	-176	-	-68	19.6
	FY2022F	-	-	-	-	-	-
Tohoku Electric Power	FY2020	22,868	1.8	675	-32.5	293	18.5
(9506)	FY2021	21,044	-8.0	-492	-	-1,083	14.8
	FY2022F	-	-	-	-	-	-
Shikoku Electric Power	FY2020	7,192	-1.9	51	-81.4	29	22.8
(9507)	FY2021	6,419	-10.7	-121	-	-62	20.8
	FY2022F	-	-	-	-	-	-
Kyushu Electric Power	FY2020	15,219	-	551	-	318	12.7
(9508)	FY2021	17,433	14.5	323	-41.3	68	12.1
	FY2022F	-	-	-	-	-	-
Hokkaido Electric Power	FY2020	5,852	-3.1	411	26.1	361	13.8
(9509)	FY2021	6,634	13.4	138	-66.4	68	13.7
	FY2022F	-	-	-	-	-	-
Okinawa Electric Power	FY2020	1,905	-6.7	113	21.7	83	37.8
(9511)	FY2021	1,762	-	27	-76.0	19	35.7
	FY2022F	-	-	-	-	-	-
	FY2020	191,453	-	7,587	-19.3	5,671	22.8
Total	FY2021	179,467	-	297	-96.1	-969	21.1
	FY2022F	-	-	-	-	-	-

Notes:
- FY2022F 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

<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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