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Highlights of Three Japan Railway 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 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

The total railway transportation volume of 3 JR companies in the main land for FY2021 was 160.6 billion passengers/km for FY2021, an increase of 12.1% on year. While the transportation volume of commuting pass passengers decreased 0.9% on year, the transportation volume of non-commuting pass passengers increased 29.7% on year. Conventional lines and Shinkansen increased 5.4% and 33.8% on year respectively. Compared to FY2018, the pre-pandemic, conventional lines and Shinkansen decreased 28.6% and 55.3% respectively, indicating both still remained at low levels. However, recovery can be observed in the railway transportation volume after hitting the bottom in FY2020.

On a quarterly basis for FY2021, it increased 26.0% on year for the first quarter; however, showed a 0.4% decrease on year for the second quarter strongly affected by the restriction on activities due to extension of the state emergency declaration. For the third quarter, it increased 10.4% on year, and particularly Shinkansen showed a 26.7% increase on year after lifting of the state emergency declaration. For the fourth quarter, it increased 16.2% on year. Despite the fact, compared to the same period of FY2018, the pre-pandemic, the degree of decrease in the fourth quarter comparison was larger than that in the third quarter comparison. That said, the impact of the resurgence of infection started from the beginning of the year has been observed. The tendency has been continuing that Shinkansen, assuming long distance transportation, is more sensitive to the restriction on activities than conventional lines.

For the forecast of railway transportation based on revenue for FY2022, JR East expects up to a recover rate of approximately 95% and approximately 90% of the pre-pandemic level for the conventional lines in Kanto region and Shinkansen respectively. JR West expects a recovery rate of up to 90% of the pre-pandemic level toward the end of December. JR Central expects a recovery rate of up to 80% of the pre-pandemic level in the third quarter. As for conventional lines, some commuting pass passengers have been shifting to using railways without purchasing commuting passes; however, the majority have concluded in general that the usage status would not recover to the pre-pandemic level due partly to penetration of teleworking. As for non-commuting pass passengers, the key factor is still the recovery status of usage of Shinkansen, which assumes long-distance transportation. JCR will check the impacts of increased non-face-to-face meetings, etc. for business users and recovery status of domestic and foreign tourists.

2. Financial Results

The total operating deficit of the 3 companies for FY2021 was 271.3 billion yen, reporting operating deficit for two consecutive fiscal years. By company, JR Central turned profitable; however, other two companies continued reporting the operating deficits. Although the degree of deficit substantially shrank, the impact of delay in demand recovery arising from the business environment involving strong uncertainties can be observed centering on the railways considering the fact that the total operating income projected at the beginning of FY2021 was 301.0 billion.

By business segment, for FY2021, the transportation segment reported an operating loss of 438.0 billion yen (FY2020: an operating loss of 984.0 billion yen), and the related business segment (segments other than transportation segment) reported an operating income of 166.7 billion yen (FY2020: an operating income of 33.4 billion yen). Looking at the results on a quarterly basis for FY2021, the performance of the transportation segment substantially improved (JR Central secured an operating profit for the quarter following the third quarter of FY2020) for the third quarter, removal of the restriction on activities including the state emergency declaration took place; however, resulted an operating loss for the total of the fiscal year. In the related business segment, some segments centering on the real estate have been continuing solid performance, on the other hand, the hotel business and others have been facing a severe business environment. The operating profit and loss of the real estate segment includes the impact of the sale of assets through the capital recycling business executed by JR East.

For FY2021, the total operating cash flow was 175.8 billion yen in positive, as opposed to 462.6 billion yen in negative for FY2020. Although total investment cash flow was squeezed to 868.1 billion yen in negative from 1,095.8 billion yen in negative due partly to revisions of investments, total free cash flow (operating cash flow minus investment cash flow) was 692.3 billion yen in negative indicating that it was in the negative territory for three fiscal years in a row. Due to this, total balance of long-term debts (the balance of interest-bearing debt for JR East) was 11,370.1 billion yen at the end of FY2021, an increase of 527.8 billion yen from the end of FY2020. The total equity ratio of the 3 companies was 31.1% at the end of FY2021, in which impacts of issuance and sale of new shares executed by JR West during FY2021 were reflected.

3. Highlights for Rating

According to the performance forecast disclosed by the 3 companies, the total operating revenues and operating income are projected to be 5,094.0 billion yen for FY2022, an increase of 29.1% on year, and 473.0 billion yen in the black respectively. The operating income is expected to remain at 34.0% of the FY2018 level (the total operating income for FY2018 was 1,391.6 billion yen) indicating a slow performance recovery amid the continuing strong uncertainties involved in the business environment. By segment, JR East and JR Central expect to return to operating profit for the transportation segment. All the 3 companies mentioned their intention to continue maintaining the policy to promote cost reductions again. The key factor is the progress in cost reductions while expecting the deviation between forecast and actual demand, and also demand recovery centering on the transportation business.

For FY2021, the 3 companies' total capital investment was substantially squeezed from the projection at the beginning of the fiscal year (1,667.0 billion yen) to 1,263.6 billion yen, and also a decrease of 13.0% from the actual for FY2020. For FY2022, the total capital investment is projected to be 1,562.0, up 23.6% on year; however, it is below the level of the projected figure at the beginning of FY2021. It seems that it reflects the policy to curb the capital investments amid continuing uncertainties in the business environment. All 3 companies respectively have ongoing large scale projects such as JR East for development in the major stations centering on the Shinagawa Development Project, JR West for advancing the redevelopment in Osaka Station vicinity, and JR Central for full-scale construction of Chuo Shinkansen. All the companies plans to give priorities to holding down the investments, which do not require urgency, cost structure reforms, among others; however, JCR believes that they do not intend to revise the large redevelopment plans and investments for reinforcing the businesses, which will be the future growth drivers. The key factor is how the companies can reduce the financial burden through increasing investment efficiency centering on the investments for maintenance and upgrading.

In the railway industry, a new fare system with additional fees for access to barrier-free facilities in the stations was established in December last year. Other than this, some private railway companies have submitted an application for a revision to upper ceiling of fares. In the subcommittee on matters concerning railway fares and fare system (Ministry of Land, Infrastructure, Transportation and Tourism) is now discussing the existing railway fare system, and an interim report is expected to be published in June. Under such circumstances, JR East has announced a revision to new Shinkansen fee structure and also indicated that it would adopt the new barrier-free fee system. As for JR West, based on the purpose of widely having discussions with the local communities around its railway lines concerning securing local passenger transportation services including separation of roles of operators assuming railway operation and maintenance/management of infrastructure, it has decided to disclose the usage status of conventional lines by line and operating profit and loss by line and zone. While structure changes, not existed previously in using railway, have been gradually arising, JCR views it is important to watch the impacts of these initiatives and revision to fare system together with the status of cost reductions of each company.

Akio Kamimura, Naoki Kato

(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 (*1)
JR East (9020)	FY2020(*2)	17,646	-40.1%	-5,204	-	43,502
	FY2021	19,790	-	-1,539	-	47,037
	FY2022F	24,530	24.0%	1,530	-	
JR West (9021)	FY2020(*2)	8,982	-40.4%	-2,455	-	15,595
	FY2021	10,311	-	-1,191	-	17,248
	FY2022F	13,090	27.0%	300	-	
JR Central (9022)	FY2020(*2)	8,235	-55.4%	-1,848	-	49,326
	FY2021	9,351	-	17	-	49,416
	FY2022F	13,320	42.4%	2,900	-	
Total of 3 Companies	FY2020(*2)	34,863	-44.7%	-9,507	-	108,423
	FY2021	39,452	-	-2,713	-	113,701
	FY2022F	50,940	29.1%	4,730	-	

Note:

(*1) Any of the figures have been published by the above companies; long-term debt for JR West and JR Central.

(*2) Figures for FY2020 are before applying the accounting standards of revenue recognition.

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

<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

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026