19-D-0194
June 4, 2019

Highlights of Three Japan Railway Companies' Financial Results for Fiscal Year Ended March 2019

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 2019 (FY2018) and earnings forecasts for FY2019 of 3 Japan Railway ("JR") companies: 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 3 JR companies' total railroad passenger traffic revenue for FY2018 increased 1.6% year-on-year to 4,126.7 billion yen, continuing posting a record-high revenue. While the revenue of Shinkansen increased 2.5% year-o-year to 2,345.9 billion yen, that of conventional lines increased 0.4% year-on-year to 1,780.6 billion yen. All 3 companies increased their revenue of Shinkansen, posting the 9th consecutive increase since it bottomed out in FY2009 thanks to their efforts to improve convenience of their services in addition to their capturing solid business demand and brisk tourist demand. In particular, JR Central increased the revenue 3.1% year-on-year (JR East increased 1.5% year-on-year and JR West increased 2.1% year-on-year). Meanwhile, two companies except JR East decreased the revenue of conventional lines. Both JR West and JR Central decreased non-commuter pass passengers. JR West, in particular, decreased its revenue from conventional lines 0.9% year-on-year, affected by large-scale natural disasters such as earthquakes and typhoons. Recovery of these disasters was quick, and it can be said that the impact has been limited. By region for conventional lines, JR East increased 0.9% in Kanto and the growth was flat in regions other than Kanto, while JR West decreased 0.3% in Kinki region and decreased 2.6% in regions other than Kinki. These results indicate that both companies have established a strong business base in areas which have large population such as Kanto and Kinki.

Their total railroad passenger traffic revenue for FY2019 is forecast to reach 4,181.9 billion yen (up 1.3% year-on-year). JR West, which factors in reactionary increase from the natural disasters in the previous fiscal year, expects a 2.5% increase, and other 2 companies estimate their revenue to increase against the backdrop of solid business environment. According to the monthly transportation conditions for April of the 3 companies, transportation increased over the same month a year ago for all 3 companies, indicating a solid start. Given the conditions up to now, it is unlikely that their business environment will significantly worsen and it is likely that their passenger traffic will remain solid.

2. Financial Results

The 3 companies' total operating revenue increased 2.2% year-on-year to 6,409.4 billion yen and the operating income increased 4.3% year on-year to 1,391.5 billion yen for FY2018. Proportions of transportation in operating revenue and operating income of the 3 JR companies are larger than those of private railway companies. Their solid passenger traffic revenue therefore led their consolidated business performance. Their total operating revenue and operating income were the record amounts, and operating income margin was also the highest ever recorded ratio at 21.7%.

While their total operating cash flow reached 1,553.8 billion yen, total investing cash flow reached 1,439.3 billion yen for FY2018. JR Central recorded outlays of 1.5 trillion yen through establishment of trust for the Chuo Shinkansen construction funds in its investing cash flow for FY2016 and FY2017, respectively. These outlays are related to borrowings from Japan Railway Construction, Transport and Technology Agency. Excluding the impact from these outlays in FY2016 and FY2017, the total investing cash flow for FY2018 reached the highest ever recorded amount. JR Central is promoting accumulation of long-term reserve for the Chuo Shinkansen construction for the future construction expenses, and this is significantly pushing up the total investing cash flow used.

Their total long-term debt as of the end of FY2018 (interest-bearing debt for JR East only) increased 0.1% from a year earlier to 9,078.8 billion yen. Their total free cash flow (operating cash flow less investing cash flow) has been more than 450 billion yen to more than 600 billion yen in recent years except FY2016 and FY2017 where those activities were irregular. In light of the impact from the reserve of JR Central described above, it is highly likely that their total free cash flow for FY2018 would have been a positive figure at a level as before, which indicates further financial improvement in effect.

3. Highlights for Rating

The 3 companies' total operating revenue will increase 1.7% year-on-year to 6,518.5 billion yen and the operating income will decrease 2.1% year-on-year to 1, 362 billion yen for FY2019. JCR Central only expects its operating income to decline (4.8% year-on-year decrease), and both JR East and JR West expect their operating income to increase (0.6% and 0.5% year-on-year increase, respectively) against the backdrop of their solid passenger traffic revenue. Meanwhile, JR Central expects a drop in the income, because it incorporated the expected increase of expenses along with the progress of construction works for the Chuo Shinkansen. It is unlikely that the 3 companies' strong business base will be rapidly impaired and it is likely that their performance will remain solid.

Their total capital expenditures will increase 24.2% year-on-year to 1,667 billion yen for FY2019, and they plan to continue to make large capital investments in the fiscal year. JR East plans to promote growth investments including opening of line directly connecting Sagami and JR lines in addition to large-scale development projects in Shinagawa, Shibuya, Takeshiba, and Yokohama. JR West plans to continue promoting development of its base stations, construction of Umekita subway, extension of the Hokuriku Shinkansen to Tsuruga. JR Central plans ongoing implementation of large-scale repair work for Shinkansen in addition to the full-scale investments in the Chuo Shinkansen.

JR East is promoting its Group Management Vision "Move UP 2027", and JR West is promoting its group medium-term management plan to FY2022 as the final year, and JR Central is promoting its plan for Chuo Shinkansen. All companies plan larger capital investments than before. It is assumed that JR East and JR West may increase its long-term debt over a medium term, but it is less likely that their financial structure will significantly worsen in light of their high level cash flow generating ability.

Concerning JR Central's Chuo Shinkansen project, JCR sees that its financial burden during the construction period will be reduced from the initially planned based on reasons including: (i) its cash flow generating ability is increasing; (ii) it has financed funds for the construction ahead of schedule for long-term period with fixed and low interest rate by implementing loans (3 trillion yen) from Japan Railway Construction, Transport and Technology Agency; and (iii) it has well advanced accumulation of funds for the cost of construction works for the Chuo Shinkansen (long-term reserve for the Chuo Shinkansen construction). JCR judges that these factors have stabilized JR Central's rating during the period of the Chuo Shinkansen plan. Given that the project is long, JCR will continue to confirm the progress of the project and financial conditions.

Akio Kamimura, Naoki Kato

(Chart 1) Consolidated Business Performance

(JPY 100 mn, %)

		Operating Revenue	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
	FY2019F	30,700	2.3	4,880	0.6	
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
	FY2019F	15,575	1.8	1,980	0.5	
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
	FY2019F	18,910	0.7	6,760	-4.8	
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
	FY2019F	65,185	1.7	13,620	-2.1	

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

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