

Highlights of Major Trucking Companies' Financial Results for Fiscal Year Ended March 2021

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 2021 (FY2020) and earnings forecasts for FY2021 of the following Japan's major trucking companies (the "Companies"): Konoike Transport Co., Ltd. ("Konoike Transport"), Maruzen Showa Unyu Co., Ltd. ("Maruzen Showa Unyu"), SENKO Group Holdings Co., Ltd. ("SENKO Group HD"), Tonami Holdings Co., Ltd. ("Tonami HD"), Fukuyama Transporting Co., Ltd. ("Fukuyama Transporting") and Seino Holdings Co., Ltd. ("Seino HD").

1. Industry Trend

According to the FY2021 Forecast on Economy and Freight Transportation (Revision) released in March 2021 by Nittsu Research Institute and Consulting, Inc. ("NRIC"), the total volume of freight transport in FY2020 was expected to decrease 6.7% from the previous fiscal year (9.2% down in the first half, 4.3% down in the second half). The transport volume dropped greatly in the first half due to the impact of COVID-19 pandemic, but the decrease narrowed in the second half. The same trend is observed by product category. Against the backdrop of sluggish capital investment and mining and industrial production, the volume of production-related cargo transportation appears to have been slow compared with consumption and construction-related cargoes. NRIC said that transport volume is expected to rise 2.4% year on year in FY2021. Although the volume is expected to recover driven by consumption and production-related cargoes, it would not return to the pre-COVID-19 level.

On the unit price front, spot freight rates are falling against the backdrop of a decline in transportation demand. The contract fare index in WebKIT, the All-Japan Truck Association's cargo/trucking-seeking information network, has been low compared with the same month of the previous year since September 2019. However, even in such situation, there has been no significant decline in the unit price levels of major trucking companies, which are original contractors. This seems to be because of the facts that there are few movements to secure the quantity of cargoes by lowering the price by major trucking firms and that consignors' understanding of the initiatives for proper freight collection has advanced.

The supply and demand balance for drivers has also been softened due to a decrease in the volume of cargo transportation. According to the Ministry of Health, Labor and Welfare's General Occupation Introduction Status, the jobs-to-applicants ratio of "occupations in automobile driving" had been around three times higher in recent years, but fell to around twice under the pandemic. However, because the labor market condition for drivers remains relatively tight among all industries, JCR does not expect the trend to significantly change its basic view on the lack of drivers in the industry.

2. Financial Results

In FY2020, total sales of the six land transport Companies, to which JCR assigns credit ratings, were 1,999.8 billion yen, down 3.0% year on year and total operating income was 87.5 billion yen, down 9.1% year on year.

FY2020 total sales of the three LTL trucking Companies (Tonami HD, Fukuyama Transporting and Seino HD) in the same fiscal year were 1,012.2 billion yen, down 4.2% year on year, and total operating income was 52.1 billion yen, down 8.6% year on year. Fukuyama Transporting saw a higher income, while Tonami HD and Seino HD recorded a lower income. While the volume of cargo handled declined at each of the Companies, unit prices did not fall, and cost control initiatives, such as raising the in-house rate of trucking operations, were also successful. As a result, they maintained a certain level of profit. Fukuyama Transporting was able to ensure an increase in sales, partly thanks to the firm business in handling of consumer-related cargoes, such as daily commodities.

Three Companies focusing on contracts for warehousing operations and 3PL operations (Konoike Transport, Maruzen Showa Unyu and SENKO Group HD) achieved a total sales of 985.8 billion yen,

down 1.8% year on year, and a total operating income of 35.3 billion yen, down 9.8% year on year. Although affected by the pandemic, Maruzen Showa Unyu and SENKO Group HD ensured an increased income through the effects of sales expansion, rate revisions and cost control. On the other hand, Konoike Transport recorded a significant decline in income strongly affected by the pandemic in its core steel and airport-related businesses.

The total of FY2020 operating cash flow of the six Companies was 139.1 billion yen (134.9 billion yen in FY2019) but the investment cash flow was 120.2 billion yen (101.2 billion yen in the same fiscal year). Each of the Companies continues to be aggressive in capital investment, but it is basically executed within the scope of operating cash flow. The total equity ratio of the six Companies at the end of FY2020 was 51.3% (53.8% a year earlier). Despite the impact of stock buybacks observed at some of the Companies, financial positions have been remained at a favorable level.

3. Highlights for Rating

Total sales of the six Companies for FY2021 is expected to be 2,080.5 billion yen, up 4.1% year on year, and total operating income to be 100.5 billion yen, up 14.8% year on year. All the Companies project an increase in operating income. This prospects incorporate an increase in the volume of cargoes handled in conjunction with the recovery of economic activity.

Looking at the FY2021 results of each of the Companies, the pace of recovery in the volume of cargoes handled will continue to be important. Business-to-business logistics have generally been recovering since bottoming out in the first half of FY2020, but the pace of recovery varies depending on the industry. JCR will watch the progress of recovery in cargo volume, mainly in industries where the pandemic effect was so far large.

JCR will continue to check trends in unit price and cost. The downward pressure on the unit price is not considered to be large as the business confidence is improving. On the other hand, costs such as personnel expenses and vehicle chartering expenses are expected to increase in line with the recovery in the volume of cargoes handled. Each firms in the industry has responded to the decrease of cargo volume until now, and has worked on raising the in-house rate of trucking operations, cost reduction, etc. JCR will pay attention to how the Companies strengthen their cost competitiveness by leveraging the cost control know-how gained under the pandemic.

Attention will be also paid to trends in growth strategies. Major factors are improvement of transportation quality by strengthening the distribution network, and expansion of the high-value-added transportation menu, such as cold chain and domestic and overseas integrated transportation. In recent years, there have been moves by leading LTL trucking Companies to strengthen their 3PL businesses by leveraging their strength in synergies with transportation. Including such growth strategy, each of the Companies plans to invest at a relatively high level. However, given its cash flow generation capacity and conservative financial management policy, there is little concern overall that financial risks will increase.

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Consolidated Business Performance of Six Major Trucking Companies

(JPY mn, %)

	FY	Net Sales	YoY	Operating Income	YoY	Net Income Attributable to Owners of Parent	YoY	Equity Capital	YoY	Equity Ratio
Konoike Transport (9025)	FY2019	310,834	5.7%	9,686	-11.8%	4,593	-27.0%	96,182	-2.1%	43.0
	FY2020	292,348	-5.9%	3,997	-58.7%	4,836	5.3%	101,554	5.6%	39.2
	FY2021 F	280,000	-4.2%	6,500	62.6%	4,600	-4.9%			
Maruzen Showa Unyu (9068)	FY2019	122,801	5.0%	8,877	18.3%	8,030	35.3%	90,765	5.2%	63.0
	FY2020	121,136	-1.4%	9,851	11.0%	6,748	-16.0%	99,054	9.1%	62.7
	FY2021 F	135,000	11.4%	10,500	6.6%	7,400	9.7%			
SENKO Group HD (9069)	FY2019	570,030	7.6%	20,656	5.2%	12,081	3.4%	125,158	5.0%	35.1
	FY2020	572,405	0.4%	21,520	4.2%	14,240	17.9%	134,775	7.7%	31.0
	FY2021 F	625,000	9.2%	24,600	14.3%	14,500	1.8%			
TonamiHD (9070)	FY2019	138,167	0.5%	6,824	-6.2%	4,125	-9.1%	71,170	2.1%	48.9
	FY2020	134,695	-2.5%	6,455	-5.4%	4,660	13.0%	76,856	8.0%	51.0
	FY2021 F	140,000	3.9%	7,000	8.4%	4,500	-3.4%			
Fukuyama Transporting (9075)	FY2019	292,999	2.6%	20,541	5.5%	12,918	-13.7%	252,487	1.5%	56.3
	FY2020	285,518	-2.6%	21,145	2.9%	15,320	18.6%	269,569	6.8%	57.1
	FY2021 F	289,500	1.4%	21,300	0.7%	15,600	1.8%			
Seino Holdings (9076)	FY2019	625,626	-	29,697	-	25,848	-	426,163	-	65.1
	FY2020	592,046	-5.4%	24,560	-17.3%	16,660	-35.5%	419,260	-1.6%	62.4
	FY2021 F	611,000	3.2%	30,600	24.6%	21,200	27.3%			
6 Companies in Total	FY2019	2,060,457	-	96,281	-	67,595	-	1,061,925	-	53.8
	FY2020	1,998,148	-3.0%	87,528	-9.1%	62,464	-7.6%	1,101,068	3.7%	51.3
	FY2021 F	2,080,500	4.1%	100,500	14.8%	67,800	8.5%			

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

* Regarding FY2019 Seino Holdings, YoY cannot be displayed because its figures are after retroactive adjustment for changes in the accounting policy.

<Reference>

Issuer: Konoike Transport Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Maruzen Showa Unyu Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: SENKO Group Holdings Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Tonami Holdings Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Fukuyama Transporting Co., Ltd.

Long-term Issuer Rating: A Outlook: Positive

Issuer: Seino Holdings Co., Ltd.

Long-term Issuer Rating: A+ Outlook: Positive

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