

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

The following is 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 Japan's four major telecom companies (collectively, the "Companies"): NIPPON TELEGRAPH AND TELEPHONE CORPORATION ("NTT"), NTT DOCOMO, INC. ("NTT DOCOMO"), KDDI CORPORATION ("KDDI") and SoftBank Corp. ("SoftBank").

1. Industry Trend

In the domestic mobile communications market, the total number of subscribers for NTT DOCOMO, KDDI and SoftBank (collectively, the "Mobile Phone Operators") as of March 31, 2021 came to 190.32 million, up 3.0% from a year before. Even though the penetration rate is already over 100%, subscribers keep growing. That said, other than the main lines for private telephone services, these subscriptions also include the lines exclusively for data communications and those for mobile virtual network operators (MVNOs), of which earnings contribution is in some cases small with low monthly average revenue per user (ARPU). Hence, the number of subscribers for the main lines is critical in terms of earnings, but, given the already high penetration rate, a future leap in the number is unlikely.

Amid growing pressure to bring down rates, the Mobile Phone Operators began offering new rate plans in March 2021, thereby achieving drastic rate reductions from previous plans by accepting applications only online to cut down on costs. As their rates are almost at the same levels, new plans are hardly likely to bring about a sharp rise in the number of subscribers changing their carriers. Rather, the question is how many of the current subscribers will switch to new plans. There are a certain portion of users who quickly react to new rates, and JCR assumes that some impacts cannot be avoided. On the other hand, many users to date have signed their contracts over the counter and may be reluctant to follow online-only procedures. As such, JCR presumes that impacts of new rate plans will be determined by varying factors and will therefore keep an eye on future developments.

The Mobile Phone Operators have all commenced the commercial 5G service. Featuring ultra-high speed, large capacity, simultaneous connectivity and low latency, 5G enables the provision of unprecedentedly unique services and thus has a potential to become a new earnings source. The Mobile Phone Operators intend to accelerate the establishment of 5G base stations. SoftBank aims to achieve 90% population coverage by spring 2022 by, for instance, deploying 5G using its existing spectrum. Most of smartphones to be launched hereafter are expected to be 5G-compatible, and 5G's connectivity is most likely to be a key factor when users choose carriers. Given that the status of construction of 5G base stations will probably affect the Mobile Phone Operators' competitiveness, JCR is monitoring progress in construction.

2. Financial Results

The Companies remain highly profitable. The combined operating income of NTT, KDDI and SoftBank (the "combined operating income") grew 5.2% over the year to 3,679.3 billion yen in FY2020. NTT's income rose 7.0% to 1,671.3 billion yen with income growth in the mobile communications business thanks in part to sales expansion for optional services, as well as in the regional communication business and the long distance and international communications business. KDDI also improved its income by 1.2% to hit a new high of 1,037.3 billion yen. Mobile communication revenues remained high with an increase in the number of its group IDs (the number of au subscribers plus UQ mobile and MVNO subscribers), while the life design domain offering optional services kept expanding. SoftBank, too, reported a new record-high 970.7 billion yen with a 6.5% year-on-year growth. It remains highly competitive by developing three brands to cater to user needs, all of which steadily gained new subscribers.

On the financial front, NTT faced capital needs for the consolidation of NTT DOCOMO and will work on reducing interest-bearing debt going forward. SoftBank, on the other hand, has much room for improving the net interest-bearing debt/EBITDA ratio, equity ratio and other financial indicators,

compared to its peers. In FY2020, its equity capital for accounting purposes increased as a result of subsidiary Z Holdings' business integration with LINE Corporation. Given the stable cash flow generation capacity, JCR assumes that SoftBank's financial indicators will improve gradually from here on.

3. Highlights for Rating

The combined operating income for FY2021 is projected to grow 2.0% to 3,755.0 billion yen. Introduction of new rate plans will have negative impacts, which however will likely be more than offset by growth in other items than communications fees. As regards the new rate plans, the switchover of a certain number of subscribers from current plans will probably push down ARPU. JCR assumes that its impacts in monetary terms vary due to different factors, but the Companies appear to estimate it at a negative couple hundred yen by and large. On a separate note, the Rakuten Group's entry into the mobile phone business has so far had no noticeable impacts on the number of subscriptions, etc. of the Companies, but, as the Group is implementing such measures as introducing characteristic rate plans, its moves need to be carefully watched.

As a sharp increase in communications fees is hardly likely, the Companies are focusing on improving optional services and developing non-telecom domains. For telecom services, there is not much difference now among the Companies in terms of rate plans, handsets, communications quality, etc., whereas optional services have much room for introducing new ideas, which could be a key to differentiation. NTT DOCOMO, for instance, is striving to expand its operations by defining financial and payment services, content services, support services, etc. as "smart life domains" and intends to improve operating income from these domains by 9.3% from FY2020 to 210 billion yen in FY2021. SoftBank has expanded its customer base with Z Holdings' business integration with LINE and aims to create synergies in various areas going forward. Moreover, it keeps achieving rapid growth for the PayPay smartphone settlement service, as indicated by the number of registered users topping 39 million in May 2021. All of the Companies intend to further enhance their earnings bases by beefing up the non-telecom domains, and JCR will closely look at progress in such efforts.

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(Chart 1) Consolidated Results of Major Telecom Companies

(JPY 100 mn, %, times)

		Net Sales (Operating Revenue)	Operating Income	EBITDA	EBITDA Margin	Net Income	Net Interest- bearing Debt	Equity Capital	Total Assets	Net Interest- bearing Debt/ EBITDA	Equity Ratio	Net DER
NTT (9432)	FY2019	118,994	15,621	29,686	24.9	8,553	36,663	90,611	230,141	1.2	39.4	0.4
	FY2020	119,439	16,713	31,116	26.1	9,161	66,886	75,627	229,654	2.1	32.9	0.9
	FY2021F	120,000	17,300	31,600	26.3	10,850						
NTT DOCOMO (-)	FY2019	46,512	8,546	13,767	29.6	5,915	-1,038	52,499	75,359	—	69.7	—
	FY2020	47,252	9,132	14,100	29.8	6,290	-2,430	55,803	79,262	—	70.4	—
	FY2021F	47,900	9,200	14,700	30.7	6,400						
KDDI (9433)	FY2019	52,372	10,252	17,508	33.4	6,397	13,111	43,844	95,801	0.7	45.8	0.3
	FY2020	53,125	10,373	17,861	33.6	6,514	8,356	47,597	105,353	0.5	45.2	0.2
	FY2021F	53,500	10,500	18,100	33.8	6,550						
SoftBank (9434)	FY2019	48,612	9,117	16,065	33.0	4,731	38,659	10,005	97,922	2.4	10.2	3.9
	FY2020	52,055	9,707	17,104	32.9	4,912	40,203	15,122	122,266	2.4	12.4	2.7
	FY2021F	55,000	9,750			5,000						
Three Companies ¹	FY2019	219,978	34,990	63,259	28.8	19,681	88,433	144,460	423,864	1.4	34.1	0.6
	FY2020	224,619	36,793	66,081	29.4	20,587	115,445	138,346	457,273	1.7	30.3	0.8
	FY2021F	228,500	37,550	—	—	22,400	—	—	—	—	—	—

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

Notes:

1. Three Companies' Total covers NTT, KDDI and SoftBank.
2. Figures for FY2021F are those announced by the above companies.

<Reference>

Issuer: NIPPON TELEGRAPH AND TELEPHONE CORPORATION

Long-term Issuer Rating: AAA Outlook: Stable

Issuer: SoftBank Corp.

Long-term Issuer Rating: AA- Outlook: Stable

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