

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Akanekai (security code: -)

<Affirmation>

Long-term Issuer Rating: BBB
Outlook: Stable

Rationale

- (1) Akanekai is a specified medical corporation providing medical services in Yamaguchi, Fukuoka and Tokyo Prefectures. The main Showa Hospital in Shimoseki City, Yamaguchi Prefecture was newly built and relocated in December 2021, and it was renamed as "Neuromuscular Diseases Center, Yoshimizu Hospital" ("Yoshimizu Hospital") (391 beds; nursing care clinic capacity: 60 persons). In addition to medical treatment for the elderly and disabled, the new hospital is enhancing its ability to response to neuromuscular intractable diseases through collaboration with Yamaguchi University. In Fukuoka Prefecture, Akanekai, as a designated administrator, runs Kitakyushu City Moji Hospital (155 beds) to treat patients in the recovery phase and those with tuberculosis. In Koto Ward, Tokyo, it operates a medical complex including a nursing home, a medical clinic, etc., jointly with Akatsukikai, a social welfare service corporation.
- (2) The relocation of Yoshimizu Hospital has been basically completed in line with the plan, and Akanekai expects to continue to secure a certain level of cash flows. Although the business environment including the impact of the COVID-19 pandemic is severe, Akanekai maintains the ability to attract patients with close cooperation with medical institutions inside and outside the group, while thoroughly managing expenditures. The financial structure is deteriorating due to an increase in borrowings associated with construction of the new hospital and a decrease in net assets due to impairment losses at the old hospital and others. However, JCR judged that Akanekai can steadily redeem its debt through stable cash flows. Based on the above, JCR has affirmed the rating on Akanekai with Stable outlook.
- (3) The COVID-19 pandemic has only a limited impact on hospitalized care at Yoshimizu Hospital and Moji Hospital. The human resources necessary for facility management are generally sufficient. For securement of nurses, Akanekai has its own nursing school in corporation, which serves as its strength. At the time of its opening after relocation, Yoshimizu Hospital became able to operate more efficiently than before by increasing the number of hospital beds through integration with Houkankai Memorial Hospital under the same group. The hospital is expected to play a pivotal role in treatment of neuromuscular diseases in the area around Shimomoseki City, including Kitakyushu City, as well as to generate stable cash flows.
- (4) As funds for construction of the hospital, Akanekai raised super-long-term funds from regional financial institutions based on the investment recovery period. Outstanding borrowings are expected to hit a peak at the end of the fiscal year ending March 2022 (FY2021). Meanwhile, net assets are decreasing due to deterioration in periodic earnings associated with impairment losses of old hospitals and an increase in depreciation costs. The net asset ratio at the end of FY2021 will likely worsen significantly compared to that of FY2018, which marked the highest. As Akanekai's financial leeway is expected to continue to shrink, it is considered important to improve periodical earnings and accelerate profit accumulation through initiatives to increase revenues through further securement of patients and users.

Hiroyuki Chikusa, Yosuke Sato

Rating

Issuer: Akanekai

<Affirmation>

Long-term Issuer Rating: BBB Outlook: Stable



Rating Assignment Date: March 22, 2022

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) and "Medical Institutions" (September 6, 2010) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

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