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Highlights of Electric Power Companies' Financial Results for Second Quarter of Fiscal Year Ending March 2023

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 second quarter of the fiscal year ending March 2023 (FY2022) and earnings forecasts for FY2022 of Japan's ten electric power companies (former general electricity utilities; collectively, the "Companies"): Tokyo Electric Power Company Holdings, Incorporated ("TEPCO"), Chubu Electric Power Company, Incorporated ("Chubu Electric Power"), The Kansai Electric Power Company, Incorporated ("KEPCO"), The Chugoku Electric Power Company, Incorporated ("Chugoku Electric Power"), Hokuriku Electric Power Company ("Hokuriku Electric Power"), Tohoku Electric Power Company, Incorporated ("Tohoku Electric Power"), Shikoku Electric Power Company, Incorporated ("Shikoku Electric Power"), Kyushu Electric Power Company, Incorporated ("Kyushu Electric Power"), Hokkaido Electric Power Company, Incorporated ("Hokkaido Electric Power") and The Okinawa Electric Power Company, Incorporated ("Okinawa Electric Power").

1. Industry Trend

Power demand is picking up. According to the data on actual demand published by the Organization for Cross-regional Coordination of Transmission Operators, Japan, nationwide demand for the April to October 2022 period rose 1.2% from the same period a year before. Monthly data also show year-on-year growth, by and large. This appears to be attributable primarily to the resumption of economic activities with less COVID impacts and a rise in summer temperatures, and the uptrend is expected to continue for a while longer.

In terms of competition, the sales share of new power suppliers is declining after reaching its peak in the summer of 2021. It stood at 20.5% in total in August 2022, as opposed to the peak of 22.6% in August 2021. By sector, it came to 22.4% for the high-voltage sector and 7.9% for the extra high-voltage sector, as opposed to the peak of 29.2% in July 2021 and 11.4% in August 2021, respectively. As a factor behind this, faced with a surge in wholesale electricity market prices due to tight supply-demand balance, new power suppliers have been forced to scale back or withdraw from the business, consequently weakening their operations. However, they are gaining momentum in the low-voltage sector, as shown by their share reaching 27.5%, up from the previous peak of 24.8% in August 2021. Given large costs of additional electricity procurement, competition in the market as a whole will probably pause, but attention should still be paid to trends in the low-voltage sector.

2. Financial Results

The Companies are facing a very tough time. The second quarter of FY2022 saw ordinary loss for the Companies combined. By company, all but Shikoku Electric Power reported ordinary loss. Negative factors here include a drop in profitability resulting from a time lag in fuel cost adjustment, rise in wholesale electricity market prices and the impact of avoidable costs of renewable energies being liked to market prices. As for Shikoku Electric Power, it achieved an increase in operating income from the same period a year before as the resumption of the nuclear power station and streamlined management absorbed the impacts of factors including higher fuel prices.

Financial standing worsened drastically. As of September 30, 2022, while interest-bearing debt grew from a year before because of working capital requirements associated with high fuel procurement costs, in addition to large capital expenditures, all but one of the Companies incurred net loss, impairing equity capital. Combined equity ratio as of the same date stood at 20.1%, as opposed to 22.7% a year before (the equity content of hybrid securities is not considered). Even though some of the Companies are successfully mitigating the deterioration of financial indicators to a certain extent in recent years by raising funds with equity content, all face tough conditions. From a medium- and long-term perspective, the Companies will inevitably require huge amounts of capital expenditures for safety measures for nuclear power stations, measures for aging power transmission and distribution facilities, etc. As full-year forecast and working capital requirements for FY2022 suggest that growth in interest-bearing debt and the impairment of equity capital will continue, the financial structure as of the end of FY2022 is most likely to deteriorate from the previous year-end.

3. Highlights for Rating

The Companies except for TEPCO and Kyushu Electric Power have announced their forecast for FY2022. They all expect ordinary loss and net loss. Being significantly affected by soaring fuel prices, their performance will likely be historically severe.

JCR looks at the level of equity capital when examining financial results for FY2022. While the solidity of the financial structure varies among the Companies, those who will likely see equity ratio drop to around 10% as of the end of FY2022 need to take effective measures in terms of the earnings and finances. For the earnings, they should work to increase management efficiency and reduce losses by, for instance, removing caps on fuel cost adjustment. For finances, they need to curb the decline in equity capital through financing with equity content. On a separate note, attention must be paid to the fact that the earnings may be volatile depending on trends in fuel prices and the impact of an on-the-spot inspection by the Fair Trade Commission to which some of the Companies have been subjected on suspicion of violation of the Antitrust Act.

As it stands, LNG prices may have reached their peak. Yet, prices of Australian coal remain high, and the yen's depreciation is also of concern. Given that the uncertain business environment may continue into the future, including the unpredictability of when the Russia-Ukraine situation will end, it is vital for the companies whose financial structure is deteriorating drastically to not only address the current crisis but also consider prioritized allocation to shareholder returns and capital adequacy from a medium- and long-term viewpoint.

For FY2023, JCR continues to watch the profit level excluding profitability with time lag and changes in free cash flow, as well as the road map to profit recovery. Even though business performance is projected to improve in the medium and long run, FY2023 results are yet a key factor for the future rating decisions. Effective approaches here include the revision of rate plans, resumption of nuclear power stations and introduction of the new wheeling charge system in the power transmission and distribution business.

That said, there are some aspects in profit improvement measures that require attention. Those who are striving to revise regulated rates should speed up their application in consideration of the examination period. For the rate revision, even though profit recovery is a priority issue, it is also essential to strengthen the earnings structure by, for instance, reflecting fluctuations in wholesale electricity market prices when calculating power charges, for the sake of mitigating the risk of future price fluctuations. Moreover, as regards nuclear power stations, they still accompany judicial and compliance risks.

On a final note, how well the management controls risks in such a tough environment is an important viewpoint.

Shigenobu Tonomura, Tadashi Ono

(Chart) Consolidated Financial Results

(JPY 100 mn, %)

	FY	Net Sales	YoY Change	Ordinary Income	YoY Change	Net Income	Equity Ratio
TEPCO	FY2021 2Q	22,107	-	1,013	-	886	25.7
(9501)	FY2022 2Q	35,053	58.6	-2,388	-	-1,433	24.7
	FY2022F	-	-	-	-	-	-
Chubu Electric Power	FY2021 2Q	11,604	-20.1	636	-56.5	426	35.3
(9502)	FY2022 2Q	17,792	53.3	-230	-	-426	33.0
	FY2022F	41,000	51.6	-1,700	-	-1,300	-
KEPCO	FY2021 2Q	12,588	-16.2	1,270	-17.7	931	20.6
(9503)	FY2022 2Q	17,842	41.7	-1,118	-	-763	18.4
	FY2022F	41,500	45.5	-2,000	-	-1,450	-
Chugoku Electric Power	FY2021 2Q	4,854	-24.6	55	-87.7	65	18.8
(9504)	FY2022 2Q	7,497	54.4	-685	-	-560	14.3
	FY2022F	16,200	42.5	-1,860	-	-1,390	-
Hokuriku Electric Power	FY2021 2Q	2,716	-11.7	91	-63.5	56	21.1
(9505)	FY2022 2Q	3,749	38.0	-377	-	-381	16.5
	FY2022F	8,500	38.5	-1,000	-	-900	-
Tohoku Electric Power	FY2021 2Q	8,731	-15.9	399	-50.4	342	18.8
(9506)	FY2022 2Q	13,397	53.4	-1,319	-	-1,353	11.8
	FY2022F	27,400	30.2	-2,000	-	-1,800	-
Shikoku Electric Power	FY2021 2Q	2,702	-23.0	13	-92.2	8	22.1
(9507)	FY2022 2Q	4,021	48.8	173	1,165.6	89	21.1
	FY2022F	8,550	33.2	-300	-	-250	-
Kyushu Electric Power	FY2021 2Q	7,715	5.7	657	-20.3	453	13.2
(9508)	FY2022 2Q	10,106	31.0	-778	-	-476	11.0
	FY2022F	-	-	-	-	-	-
Hokkaido Electric Power	FY2021 2Q	2,734	6.3	227	-18.7	174	14.5
(9509)	FY2022 2Q	3,868	41.5	-10	-	-16	12.9
	FY2022F	9,700	46.2	-700	-	-710	-
Okinawa Electric Power	FY2021 2Q	877	-	50	-52.7	38	36.8
(9511)	FY2022 2Q	1,187	35.3	-224	-	-168	29.0
	FY2022F	2,230	26.5	-470	-	-416	-
Total	FY2021 2Q	76,633	-	4,415	-	3,383	22.7
	FY2022 2Q	114,515	49.4	-6,959	-	-5,490	20.1
	FY2022F	-	-	-	-	-	-

Notes:
- FY2022F is the forecast of individual companies.
- Equity content of hybrid securities is not considered.

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

<Reference>

Issuer: Tokyo Electric Power Company Holdings, Incorporated
  Long-term Issuer Rating: A	Outlook: Stable

Issuer: Chubu Electric Power Company, Incorporated
  Long-term Issuer Rating: AA	Outlook: Stable

Issuer: The Kansai Electric Power Company, Incorporated
  Long-term Issuer Rating: AA	Outlook: Stable

Issuer: The Chugoku Electric Power Company, Incorporated
  Long-term Issuer Rating: AA	Outlook: Stable

Issuer: Hokuriku Electric Power Company
  Long-term Issuer Rating: AAp	Outlook: Stable

Issuer: Tohoku Electric Power Company, Incorporated
  Long-term Issuer Rating: AA	Outlook: Stable

Issuer: Shikoku Electric Power Company, Incorporated
  Long-term Issuer Rating: AAp	Outlook: Stable

Issuer: Kyushu Electric Power Company, Incorporated
  Long-term Issuer Rating: AA-	Outlook: Stable

Issuer: Hokkaido Electric Power Company, Incorporated
  Long-term Issuer Rating: AA-p	Outlook: Stable

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