June 7, 2024

# Highlights of Major Private Railroad Companies' Financial Results for Fiscal Year Ended March 2024

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 2024 (FY2023) and earnings forecasts for FY2024 of Japan's major private railroad companies (collectively, the "Companies"):

> TOBU RAILWAY CO., LTD. (security code: 9001), Sotetsu Holdings, Inc. (9003), TOKYU CORPORATION (9005), Keikyu Corporation (9006), Odakyu Electric Railway Co., Ltd. (9007), Keio Corporation (9008), Keisei Electric Railway Co., Ltd. (9009) and SEIBU HOLDINGS INC. (9024) in the eastern Japan area; and Nishi-Nippon Railroad Co., Ltd. (9031), Kintetsu Group Holdings Co., Ltd. (9041), Hankyu Hanshin Holdings, Inc. (9042), Nankai Electric Railway Co., Ltd. (9044), Keihan Holdings Co., Ltd. (9045) and Nagoya Railroad Co., Ltd. (9048) in the western Japan area.

## 1. Industry Trend

Due to the reclassification of the COVID-19 under the Category V Infectious Disease (May 2023), recovery of the flow of people have become obvious. In addition, majority of the Companies raised the upper limits of passenger fares or made progress in introducing the railway station barrier-free fare system. Total railway transportation revenues of the 14 private railway companies rated by JCR came to 1,221.4 billion yen for FY2023, up 14.7% from the previous fiscal year / down 4.2% from FY2018, before the COVID crisis began having full impact. Of this total, 456.3 billion yen was revenues from commuter pass passengers, up 10.0% from the previous fiscal year / down10.6% from FY2018, and 765.1 billion yen was those from non-commuter pass passengers, up 17.6% from the previous fiscal year / up 0.1% from FY2018. Impacts of prevalence of teleworking and others still remain on the revenues from commuter pass passengers but recovery to the pre-pandemic level was recognized for the revenues from non-commuter pass passengers.

By region, recovery has been slow in the eastern Japan area for revenues from commuter pass passengers and the western Japan area for revenues from non-commuter pass passengers, but trends in railway transportation revenues, the sum of the above revenues, show no big differences between the areas. Slow recovery of revenues from commuter pass passengers in the eastern Japan area is probably due to the fact that a high teleworking rate is leading to a relatively large shift to non-commuter pass transportation. That in revenues from non-commuter pass passengers in the western Japan area may be explained by the fact that Chinese tourists, who appeared to account for a fairly large part of inbound tourists before the COVID-19 especially in the Kinki region, have not been really coming back.

Total railway transportation revenues based on available data from 13 of the Companies are forecast at 1,246.3 billion yen for FY2024, up 3.8% from the previous fiscal year / down 0.5% from FY2018. The projection incorporates such factors as effects of the railway fare revisions (full year contribution from Keikyu, Keio and Nankai, which introduced the revised fares in the second half of the previous fiscal year, and Nagoya Railroad, which executed the revision in current fiscal year) in addition to a turnaround in the number of passengers carried mainly in non-commuter pass passengers. Of the above, revenues from commuter pass passengers are projected to be 465.0 billion yen, up 3.7% from the previous fiscal year / down 7.4% from FY2018) and revenues from non-commuter pass passengers are projected to be 781.2 billion yen, up 3.8% from the previous fiscal year / up 4.1% from FY2018).

In April 2024, a part of the procedure of calculation method of cost of revenue, which determines the calculation method of total cost, was revised. According to this, scope of items that can be included in the total-cost calculation method expands for the expense items such as depreciation, personnel and repair expenses. Where performing calculation based on the revised procedure of the calculation method of cost of revenue and satisfying the necessary conditions, some companies may submit applications for approval to revise the fares to the relevant authority. The moves of each of the Companies are attracting the attention.

For businesses other than transportation, the performance of the real estate business centering on leasing remains stable. The hotel business was severely affected by the COVID crisis as revenues from inbound tourists were lost. However, the hotel occupancy rates are recovering and also average daily rates (ADR) has been increasing along with recovery in the number of such tourists. Furthermore, the number of visitors to retail stores, department stores, and leisure facilities, etc. are also tending to rise. On the other hand, in the international logistics business, sales prices largely rose due to the tight supply-demand condition during the COVID crisis but is now facing the rebound of the above-mentioned situation.

## 2. Financial Results

Operating revenue and operating income of the Companies combined improved 6.3% and 56.9% over the year to 8,000.7 billion yen and 711.8 billion yen for FY2023, respectively.

In the transportation business, operating revenue improved 11.9% from the previous fiscal year to 2,029.5 billion yen and operating income was 241.3 billion yen, 1.7 times as large as that of previous fiscal year, contributed by recovery of the number of passengers carried in railways and buses and passenger fare revision effects, among others. Measuring the operating income based on that of FY2018, it decreased 25.8%. This is probably attributable to the facts that the revenue from railway transportation fell below that of the pre-pandemic level and rising energy costs including power cost, higher personnel expenses, etc.

For non-transportation business (derived from performance of a whole company less that of transportation business) of the Companies combined, the operating revenue was 5,971.1 billion yen, up 4.5% from the previous fiscal year, and the operating income was 470.4 billion yen, up 29.1% from the previous fiscal year. Although simple comparison cannot be made with the pre-pandemic level because there were significant changes in the business portfolio for some companies such as SEIBU HOLDINGS's liquidation of the hotel assets and Kintetsu Group Holdings' acquisition of Kintetsu World Express, Inc. (KWE), the driving force of the performance recovery is the hotel business for many of the Companies and an improvement can also be recognized in the logistics business.

As at the end of FY2023, equity capital of the Companies combined was 6,331.0 billion yen, up 12.7% over the year, and the equity ratio stood at 30.8%, 28.6% a year before. Equity capital has been constantly growing through profit accumulation since hitting the bottom at the end of FY2020 and the financial structure is also improving. Free cash flows, i.e. cash flows from operating and investing activities, of the Companies combined for FY2023 were positive 428.9 billion yen. The Companies are all bringing back investments for maintenance and upgrading, which have been contained in the COVID crisis, to the previous levels and also accelerating growth investments, but the improvement of cash flow generation capacity had a greater impact for many of them. Through these, interest-bearing debt (assumed by JCR) was 9,305.0 billion yen, down 1.4% from the end of the previous fiscal year, and interest-bearing debt/EBITDA improved up to 7.0x from 8.9x at the end of the previous fiscal year.

## 3. Highlights for Rating

Operating revenue and operating income of the Companies combined for FY2024 are projected to be 8,540.9 billion yen, up 6.8% from the previous fiscal year, and 697.9 billion yen, down 2.0% from the previous fiscal year, respectively. Of the above, operating revenue and operating income for transportation business are 2,100.6 billion yen, up 3.5% over the year, and 243.4 billion yen, up 0.8% over the year respectively, and operating revenue and operating income for non- transportation business (derived from performance of a whole company less that of transportation business) are 6,440.3 billion yen, up 7.9% over the year, and 454.5 billion yen, down 3.4% over the year, respectively. None of the companies expects drastic change in the business environment for both the transportation and non-transportation businesses. As a factor decreasing income for the non-transportation business is that relatively a large number of companies expects a decrease in the number of units sold in the real estate business.

JCR will look at the following points in making rating decisions for the time being.

(i) Initiatives for strengthening the earnings capacity

Currently, revenues from railway transportation is becoming stabilized. Structural demand decrease such as the number of commuter pass passengers carried will remain in the future as well, it is highly likely that effects can be offset by the fare measures and cost control to a certain extent. That said, over the medium- to long-term, population of the alongside of the railways is expected to decrease, suggesting that strengthening the non-transportation business will become more important to enhance the earning capacity continuously. After going through the COVID crisis, many of the Companies set out the policy to decrease degree of dependence on the businesses susceptible to the flow of people. Going forward, the

Companies may strengthen the short-term turnover-type business in the real estate business and overseas business, and penetrate in new businesses through acquisition in addition to the existing redevelopment plans alongside the railways. JCR is paying attention to whether the Companies can strengthen the earning capacity through these initiatives. Meanwhile, overseas businesses and new businesses involve larger investment risks compared to existing ones. Therefore, JCR will also check the measures to curb such risks together with the above.

(ii) Progress in large-scale redevelopment projects and financial control

For the large-scale redevelopment projects in the vicinity of terminal stations, which each company is working on, the size of investment is large and construction period is also long. Highlights of the rating decision concerning the large scale development projects are the timing of investment reaching the peak and the financial burden. Companies, for which investment reaches the peak relatively near future, checking the recovery status of the cash flow generation capacity and financial management policy are more important because such companies have a shorter period of time to rebuild the financial foundation. Premised that the companies are restoring the stable cash flow generation capacity status as it was in the pre-pandemic period, it is expected that the funds required on an annual basis for the long-term projects can be dispersed to a certain extent, and financial indicators will highly like improve upon completion of the projects. However, it is undeniable that the possibility of companies facing a heavier financial burden than expected given that construction costs are rising presently. In addition, where multiple projects are successively planned, the period with a heavy fund requirement will highly likely continue. Therefore, raising financial soundness until the time such projects go into full swing will become more important.

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(Chart) Consolidated Business Performance of 14 Major Private Railroad Companies

(unit: JPY100 mn, %, times)

| | | The Companies' Total | | Eastern Japan's Total | | Western Japan's Total | |
|---|---|---|---|---|---|---|---|
| | | | YoY Change | | YoY Change | | YoY Change |
| Operating Revenue | FY2018 | 77,777 | 3.1 | 41,764 | 3.7 | 36,013 | 2.5 |
| | FY2019 | 77,075 | ▲0.9 | 41,931 | 0.4 | 35,143 | ▲2.4 |
| | FY2020 | 56,726 | ▲26.4 | 31,345 | ▲25.2 | 25,381 | ▲27.8 |
| | FY2021 | 59,524 | 4.9 | 31,366 | 0.1 | 28,157 | 10.9 |
| | FY2022 | 75,286 | 26.5 | 34,718 | 10.7 | 40,567 | 44.1 |
| | FY2023 | 80,007 | 6.3 | 38,170 | 9.9 | 41,836 | 3.1 |
| Operating Income | FY2018 | 7,319 | 5.0 | 4,181 | 6.0 | 3,138 | 3.7 |
| | FY2019 | 6,242 | ▲14.7 | 3,495 | ▲16.4 | 2,746 | ▲12.5 |
| | FY2020 | ▲2,631 | - | ▲1,815 | - | ▲816 | - |
| | FY2021 | 1,343 | - | 522 | - | 820 | - |
| | FY2022 | 4,538 | 237.9 | 2,069 | 296.0 | 2,468 | 200.9 |
| | FY2023 | 7,118 | 56.9 | 3,933 | 90.1 | 3,184 | 29.0 |
| Ordinary Income | FY2018 | 7,219 | 5.8 | 4,173 | 7.4 | 3,045 | 3.7 |
| | FY2019 | 6,047 | ▲16.3 | 3,435 | ▲17.8 | 2,611 | ▲14.3 |
| | FY2020 | ▲2,668 | - | ▲2,015 | - | ▲652 | - |
| | FY2021 | 1,828 | - | 601 | - | 1,226 | - |
| | FY2022 | 4,776 | 161.3 | 2,209 | 267.0 | 2,567 | 109.4 |
| | FY2023 | 7,340 | 53.7 | 4,154 | 88.0 | 3,185 | 24.1 |
| Net Income | FY2018 | 4,414 | ▲0.8 | 2,686 | ▲1.0 | 1,727 | ▲0.5 |
| | FY2019 | 3,326 | ▲24.6 | 1,807 | ▲32.7 | 1,519 | ▲12.0 |
| | FY2020 | ▲4,355 | - | ▲2,913 | - | ▲1,441 | - |
| | FY2021 | 1,575 | - | 605 | - | 970 | - |
| | FY2022 | 4,206 | 167.1 | 2,155 | 256.2 | 2,051 | 111.5 |
| | FY2023 | 6,509 | 54.7 | 4,371 | 102.9 | 2,138 | 4.2 |

 

(unit: JPY100 mn, %, times)

| | | The Companies' Total | | Eastern Japan's Total | | Western Japan's Total | |
|---|---|---|---|---|---|---|---|
| | | | YoY Change | | YoY Change | | YoY Change |
| EBITDA | FY2018 | 13,090 | 4.0 | 7,699 | 4.8 | 5,391 | 2.9 |
| | FY2019 | 12,343 | ▲5.8 | 7,254 | ▲5.9 | 5,088 | ▲5.7 |
| | FY2020 | 3,547 | ▲71.3 | 2,043 | ▲71.8 | 1,504 | ▲70.4 |
| | FY2021 | 7,299 | 105.8 | 4,200 | 105.6 | 3,098 | 106.0 |
| | FY2022 | 10,546 | 44.5 | 5,666 | 34.9 | 4,879 | 57.4 |
| | FY2023 | 13,373 | 26.5 | 7,595 | 34.0 | 5,777 | 17.8 |
| Equity Capital | FY2018 | 54,821 | 5.9 | 31,800 | 6.3 | 23,021 | 5.4 |
| | FY2019 | 55,352 | 1.0 | 31,797 | 0.0 | 23,554 | 2.3 |
| | FY2020 | 51,208 | ▲7.5 | 29,060 | ▲8.6 | 22,147 | ▲6.0 |
| | FY2021 | 52,240 | 2.0 | 29,198 | 0.5 | 23,041 | 4.0 |
| | FY2022 | 56,157 | 7.5 | 31,384 | 7.5 | 24,772 | 7.5 |
| | FY2023 | 63,310 | 12.7 | 35,754 | 13.9 | 27,555 | 11.2 |
| Interest-bearing Debt | FY2018 | 83,852 | 1.5 | 49,430 | 2.0 | 34,422 | 0.7 |
| | FY2019 | 86,226 | 2.8 | 51,219 | 3.6 | 35,006 | 1.7 |
| | FY2020 | 94,275 | 9.3 | 54,482 | 6.4 | 39,793 | 13.7 |
| | FY2021 | 92,308 | ▲2.1 | 53,653 | ▲1.5 | 38,654 | ▲2.9 |
| | FY2022 | 94,332 | 2.2 | 53,029 | ▲1.2 | 41,303 | 6.9 |
| | FY2023 | 93,050 | ▲1.4 | 51,931 | ▲2.1 | 41,118 | ▲0.4 |
| Equity Ratio | FY2018 | 30.2 | | 30.7 | | 29.5 | |
| | FY2019 | 30.1 | | 30.2 | | 29.9 | |
| | FY2020 | 27.3 | | 27.6 | | 27.0 | |
| | FY2021 | 27.9 | | 27.8 | | 28.1 | |
| | FY2022 | 28.6 | | 29.3 | | 27.8 | |
| | FY2023 | 30.8 | | 31.8 | | 29.6 | |
| D/E Ratio | FY2018 | 1.5 | | 1.6 | | 1.5 | |
| | FY2019 | 1.7 | | 1.6 | | 1.5 | |
| | FY2020 | 1.8 | | 1.9 | | 1.8 | |
| | FY2021 | 1.8 | | 1.8 | | 1.7 | |
| | FY2022 | 1.7 | | 1.7 | | 1.7 | |
| | FY2023 | 1.5 | | 1.5 | | 1.5 | |
| Ratio of Interest-bearing Debt to EBITDA | FY2018 | 6.4 | | 6.4 | | 6.4 | |
| | FY2019 | 7.0 | | 7.1 | | 6.9 | |
| | FY2020 | 26.6 | | 26.7 | | 26.5 | |
| | FY2021 | 12.6 | | 12.8 | | 12.5 | |
| | FY2022 | 8.9 | | 9.4 | | 8.4 | |
| | FY2023 | 7.0 | | 6.8 | | 7.1 | |

Notes:
1. Change rates from FY2020 operating revenue to FY2021 operating revenue include impact from accounting standards on the revenue recognition standard.
2. FY2023 figures for Interest-bearing Debt, D/E Ratio and Ratio of Interest-bearing Debt to EBITDA are JCR's estimates.

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

<Reference>

Issuer: TOBU RAILWAY CO., LTD.
Long-term Issuer Rating: A Outlook: Stable

Issuer: Sotetsu Holdings, Inc.
Long-term Issuer Rating: A- Outlook: Stable

Issuer: TOKYU CORPORATION
Long-term Issuer Rating: AA- Outlook: Positive

Issuer: Keikyu Corporation
Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Odakyu Electric Railway Co., Ltd.
Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Keio Corporation
Long-term Issuer Rating: AA Outlook: Stable

Issuer: Keisei Electric Railway Co., Ltd.
Long-term Issuer Rating: A+ Outlook: Positive

Issuer: SEIBU HOLDINGS INC.
Long-term Issuer Rating: A- Outlook: Positive

Issuer: Nishi-Nippon Railroad Co., Ltd.
Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Kintetsu Group Holdings Co., Ltd.
Long-term Issuer Rating: BBB+ Outlook: Positive

Issuer: Hankyu Hanshin Holdings, Inc.
Long-term Issuer Rating: AA- Outlook: Positive

Issuer: Nankai Electric Railway Co., Ltd.
Long-term Issuer Rating: A- Outlook: Positive

Issuer: Keihan Holdings Co., Ltd.
Long-term Issuer Rating: A Outlook: Positive

Issuer: Nagoya Railroad Co., Ltd.
Long-term Issuer Rating: A+ Outlook: Stable

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