May 22, 2024

Highlights of Major Shipping 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 three major shipping companies (the "Companies"): Nippon Yusen Kabushiki Kaisha ("NYK"), Mitsui O.S.K. Lines, Ltd. ("MOL") and Kawasaki Kisen Kaisha, Ltd. ("K Line").

1. Industry Trend

Container cargo volume is picking up. It declined 1.2% over the year to 19.23 million TEUs on the North American routes (outward voyage) in FY2023 due in part to inventory adjustment mainly in the retail sector but has in fact been showing year-on-year growth since October 2023 on a monthly basis. On the European routes (outward voyage), it grew 11.8% over the year to 16.85 million TEUs for the March 2023 to February 2024 period thanks in part to a turnaround in 2022 and robust automotive parts transportation. While it is likely to keep improving gradually, especially for the North American routes, persistent inflationary pressures and rising geopolitical risks require attention. Freight rates, which surged during the COVID crisis, have come down to certain levels but are rising rapidly since January 2024 due to the tight supply and demand balance caused by the moves to avoid the Suez Canal and so forth. That said, given, among others, that a number of new large ships have been completed one after another, the continuity of market upswing should be carefully watched.

The business environment for non-liner vessels is good in general. Freight rates for dry bulkers have been staying above the pre-COVID levels. In 2023, while crude steel production increased in China for the first time in three years, the import of iron ore reached a new record high and has been on an uptrend since then. Given also that the order backlog for new ships is at a low level, JCR assumes it unlikely that the supply-demand balance will deteriorate drastically. Freight rates for tankers remain high. Supply-demand balance for shipping tonnage continues to be tight as trading patterns have changed in the wake of Russia's invasion of Ukraine. The order backlog for new ships remain at a low level, and freight rates are expected to stay higher than before for the time being. As regards car carriers, the number of cars transported is showing signs of recovery, and, also because of a sharp rise in cargo movements from China, the tonnage supply and demand balance is tight. That said, this situation is likely to ease going forward as the number of new ships completed is expected to increase significantly from around the second half of 2024.

2. Financial Results

Ordinary income of the Companies combined plunged 74.9% over the year to 656.1 billion yen in FY2023, falling for the first time in five years due to a sharp decline in income for Ocean Network Express Pte. Ltd. ("ONE"), which was established through the integration of the liner container shipping business of the Companies. Yet, it remained above the pre-COVID level thanks in part to an increase in the earnings capacity of the businesses other than containerships, such as car carriers.

ONE reported after-tax income of 974 million US dollars for FY2023, tumbling 93.5% from the previous year. Despite year-on-year growth in cargo volume, it dropped sharply as a surge in freight rates subsided. It turned negative in the third quarter of FY2023 due to a drop in freight rates but returned to positive in the fourth quarter as the rates rose sharply in response to the moves to avoid the Suez Canal.

On the financial front, D/E ratio of the Companies combined (after the assessment of the equity content of subordinated bonds for MOL and subordinated loans for K Line) as of March 31, 2024 stayed at a good level, standing at 0.4x to remain flat from the previous year-end (Chart 2). Equity capital also built up steadily, despite an increase in interest-bearing debt for NYK and MOL due to accelerating investment. Interest-bearing debt decreased further for K Line.

3. Highlights for Rating

Ordinary income of the Companies combined for FY2024 is expected to remain steady at 615.0 billion yen with a year-on-year fall of 6.3%. Overall performance is projected to be underpinned by continued strong performance of car carriers, tankers, etc., and the income is expected to remain above the pre-FY2020 level.

ONE's after-tax income for FY2024 is forecast at 1,000 million US dollars, up 2.6% from the previous year. The increased use of the Cape of Good Hope route due to the situation in the Middle East has tightened the tonnage supply and demand balance, which, together with interest income, is expected to help ensure a certain level of income. Should the disruption in maritime transport be slow to be resolved, freight rates could remain high, positively affecting the Companies' performance. Yet, freight rates are currently at high levels compared to before, and, given also that new ships, especially large ones, continue to be launched, attention should be paid to whether they will remain high going forward, too. Moreover, container shipping companies have recently been restructuring their alliances, and whether industry order will be maintained will be watched. JCR will keep an eye on how ONE will maintain its service structure.

In businesses other than containerships, car carriers and tankers will continue to fare well, and dry bulkers' performance is expected to be at the same level as the previous year. While attention should be paid to the increase in the number of new ships completed and a slowdown in EV sales for car carriers and factors like the degree of recovery in Chinese economy for dry bulkers, the Companies will probably be able to secure a certain level of income even in the event of a slump in market conditions, helped by medium- and long-term contracts.

On the financial front, ongoing attention will be paid to balance between investments/shareholder returns and financial soundness. The Companies all intend to increase capital spending from previous plans. Moreover, NYK and K Line announced additional shareholder returns, along with their financial results for FY2023, and thus trends in their future cash flow should be watched. That said, both companies has sufficient risk buffers and have also expressed their policy to maintain certain financial discipline; therefore, JCR assumes that the impact on their ratings is limited at this point.

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(Chart 1) Financial Results of Three Major Shipping Companies

(JPY 100 mn, %)

		Net Sales	YOY Change	Operating Income	YOY Change	Ordinary income	YOY Change	Ordinary Income / Net Sales	Net Income Attributable to Owners of Parent	YOY Change
NYK (9101)	FY2022	26,160	14.7	2,963	10.2	11,097	10.6	42.4	10,125	0.3
	FY2023	23,872	▲8.7	1,746	▲41.1	2,613	▲76.5	10.9	2,286	▲77.4
	FY2024F	22,900	▲4.1	1,650	▲5.5	2,500	▲4.3	10.9	2,450	7.2
MOL (9104)	FY2022	16,119	27.0	1,087	97.6	8,115	12.4	50.3	7,960	12.3
	FY2023	16,279	1.0	1,031	▲5.1	2,589	▲68.1	15.9	2,616	▲67.1
	FY2024F	18,000	10.6	1,520	47.4	2,300	▲11.2	12.8	2,150	▲17.8
K Line (9107)	FY2022	9,426	24.5	788	346.4	6,908	5.1	73.3	6,949	8.2
	FY2023	9,623	2.1	847	7.5	1,357	▲80.3	14.1	1,047	▲84.9
	FY2024F	9,800	1.8	930	9.7	1,350	▲0.6	13.8	1,200	14.5
Total	FY2022	51,706	20.1	4,839	41.7	26,122	9.6	50.5	25,034	6.1
	FY2023	49,774	▲3.7	3,625	▲25.1	6,561	▲74.9	13.2	5,950	▲76.2
	FY2024F	50,700	1.9	4,100	13.1	6,150	▲6.3	12.1	5,800	▲2.5

Note: FY2024 forecasts are based on the Companies' respective announcement.
(Source: Prepared by JCR based on financial materials of the above Companies)

(Chart 2) Financial Structure of Three Major Shipping Companies

(JPY 100 mn, times)

		Equity Capital	Interest-bearing Debt	D/E Ratio	EBITDA	Interest-bearing Debt / EBITDA	Operating Cash Flow	Investing Cash Flow
NYK (9101)	FY2021	17,137	8,082	0.5	3,789	2.1	5,077	▲1,485
	FY2022	24,786	6,940	0.3	4,345	1.6	8,248	▲2,529
	FY2023	26,503	9,138	0.3	3,313	2.8	4,014	▲2,856
MOL (9104)	FY2021	13,245	9,506	0.7	1,565	6.1	3,076	▲1,074
	FY2022	19,503	11,284	0.6	2,256	5.0	5,499	▲2,819
	FY2023	23,788	12,797	0.5	2,383	5.4	3,142	▲3,552
K Line (9107)	FY2021	9,221	3,859	0.4	633	6.1	2,264	▲58
	FY2022	15,528	3,141	0.2	1,265	2.5	4,560	▲467
	FY2023	16,069	2,727	0.2	1,371	2.0	2,030	▲669
Total	FY2021	39,604	21,449	0.5	5,989	3.6	10,418	▲2,618
	FY2022	59,818	21,367	0.4	7,867	2.7	18,308	▲5,817
	FY2023	66,361	24,662	0.4	7,068	3.5	9,187	▲7,077

Note: After the assessment of the equity content of subordinated bonds and subordinated loans for MOL and K Line's equity capital and interest-bearing debt
(Source: Prepared by JCR based on financial materials of the above Companies)

<Reference>
Issuer: Nippon Yusen Kabushiki Kaisha
Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Mitsui O.S.K. Lines, Ltd.
Long-term Issuer Rating: A+ Outlook: Stable

Issuer: Kawasaki Kisen Kaisha, Ltd.
Long-term Issuer Rating: A- Outlook: Stable

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