

CREDIT OPINION

12 July 2021

Update

 Rate this Research

RATINGS

East Nippon Expressway Company Limited

Domicile	Tokyo, Japan
Long Term Rating	A1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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East Nippon Expressway Company Limited

Update to credit analysis

Summary

The credit profile of [East Nippon Expressway Company Limited](#) (E-NEXCO, A1 stable) reflects that of the [Government of Japan](#) (A1 stable) because of the company's importance to the construction, maintenance and operation of Japan's toll road networks and the high level of credit support from the government, as well as its heavy involvement in E-NEXCO's operations.

Credit strengths

- » E-NEXCO is 100% owned by the Government of Japan.
- » The company benefits from a high degree of central government support and supervision.
- » It plays a critical role in executing Japanese policies for toll road networks.
- » The company's underlying performance is supported by its highly predictable cash flow.

Credit challenges

- » Credit challenges mostly reflect the challenges faced by the central government.

Rating outlook

E-NEXCO's rating outlook is stable, reflecting the outlook on Japan's sovereign rating.

Factors that could lead to an upgrade

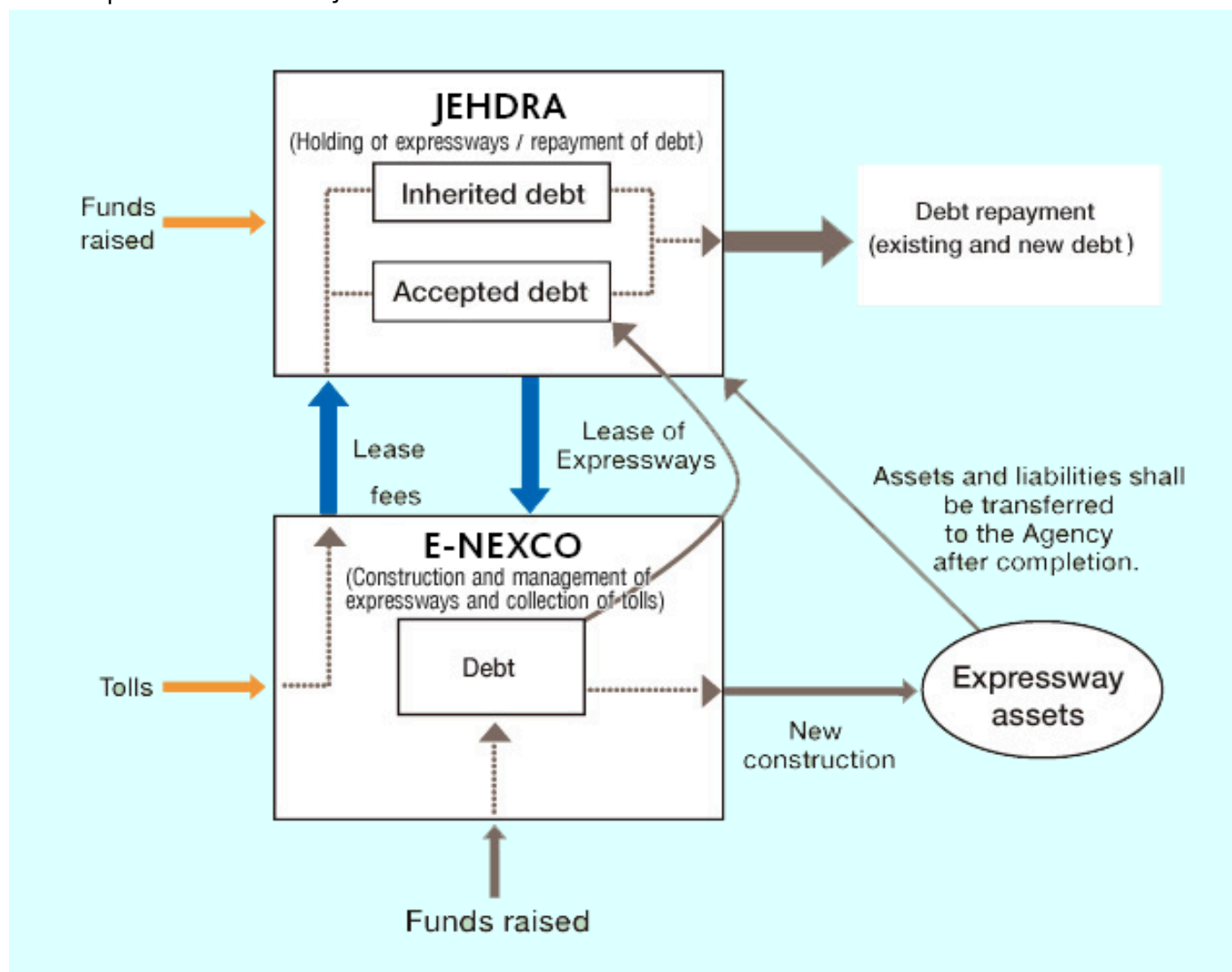
- » An upgrade of the sovereign rating.

Factors that could lead to a downgrade

- » A downgrade of the sovereign rating would lead to a downgrade of E-NEXCO's rating. In addition, a decline in the level of government ownership, or an institutional change that would result in lower financial support or weaken the company's very close relationship with the central government, could lead to downward pressure on the rating.

Exhibit 1

Relationship between E-NEXCO and JEHDRA



"Accepted debt" means that JEHDRA becomes a joint and several obligor of E-NEXCO's debt, and JEHDRA will be responsible for paying this "transferred debt," that is, JEHDRA assumes E-NEXCO's debt. E-NEXCO remains jointly and severally obliged after the "transfer" of liabilities.

Sources: JEHDRA and Moody's Investors Service

Profile

East Nippon Expressway Company Limited (E-NEXCO) is responsible for constructing and operating expressways throughout eastern Japan. It operates a network of toll roads and engages in ancillary services, such as overseas activities and parking area operations.

Detailed credit considerations

We have adopted the same analytical approach for E-NEXCO as for the 11 other government-related entities or Zaitos (government-related entities, financed under the government's fiscal investment and loan program) in Japan, assigning a final rating on par with the sovereign rating, without determining a Baseline Credit Assessment (BCA), based on our [Government-Related Issuers Methodology](#).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

We regularly review which approach — Joint Default Analysis (JDA) with an assigned BCA or an analysis without a BCA — best fits each issuer, and also consider which best reflects the relevant credit factors. As part of this process, we monitor very closely the robustness and sustainability of government support for E-NEXCO, and assess if any changes in the government's policy stance may affect the creditworthiness of its debt obligations.

E-NEXCO is 100% owned by the Government of Japan

E-NEXCO is a special public corporation under its establishment act (Kosoku Douro Kabushiki Kaisha Hou) in 2005. The act requires the government to always hold more than one-third ownership in the company and approve its major decisions, such as management appointments, operating plans, funding strategies and the issuance of equity for its toll road operations.

All of E-NEXCO's shares are currently owned by the government, which has no plan to reduce its ownership level. Under the act, the government may provide E-NEXCO with strong financial support, including guarantees and capital injections.

E-NEXCO also benefits from a well-developed institutional framework designed for Japanese highway networks.

Specifically, E-NEXCO primarily benefits from an agreement — which covers planned revenue and expenditure, including leasing fees and funding — with [Japan Expressway Hld. & Debt Repayment Agency](#) (JEHDRA, A1 stable). Based on this agreement, most of its debt is designed to be transferred to JEHDRA before its maturity.

The agreement also limits potential revenue volatility within 1% every year. If revenue declines more than 1% against the agreed-upon plan, E-NEXCO can reduce the leasing fees paid to JEHDRA.

Furthermore, the agreement with JEHDRA allows for sufficient flexibility to respond to an unexpected change in the operating environment. For instance, any negative impact on revenue from a natural disaster can be almost neutralized because E-NEXCO is empowered to revise its payment agreement with JEHDRA.

We do not expect the institutional framework to change in the near term.

The company benefits from a high degree of central government support and close supervision

The Ministry of Land, Infrastructure, Transport and Tourism is heavily involved in the development of the company's business plans, as well as in the construction of expressways, collection of tolls, issuance of long-term debt and offerings of new stock.

An example of support provided to the company was the Japanese Diet's enactment of laws to extend the period for toll collections from 45 years to 60 years in 2014 to fund the increasing maintenance costs of highway networks, following the recognition of the importance of the maintenance function of toll road operators, after the ceiling of the Sasago Tunnel collapsed in 2012. Previously, expressways would have become toll-free as of 2050.

For E-NEXCO, the longer toll collection time implies additional resources for maintaining and upgrading activities, which are estimated to cost about ¥1.2 trillion.

E-NEXCO plays a critical role in executing the government's toll road policies

E-NEXCO plays an integral role in Japan's public transportation policy. It is a not-for-profit toll road operator, leasing and operating toll road assets, as well as constructing new assets. In 2005, the Government of Japan created several public entities to manage Japanese toll road networks, including E-NEXCO.

JEHDRA was incorporated as an independent administrative company, also in 2005. As an owner of nationwide expressways, JEHDRA primarily acts as the debt repayment agency for the debt associated with the construction of the networks operated by the six highway companies: E-NEXCO, [Central Nippon Expressway Company Limited](#) (A1 stable), [West Nippon Expressway Company Limited](#) (A1 stable), [Metropolitan Expressway Company Limited](#) (A1 stable), Hanshin Expressway Co., Ltd. and Honshu-Shikoku Bridge Expressway Co., Ltd.

JEHDRA is empowered to levy leasing fees on these six companies. Lease payments, tolls and restrictions on construction costs are in turn stipulated in the agreements between the two parties in accordance with the relevant laws.

According to the current plan, users will continue to pay tolls to E-NEXCO until 2063 and JEHDR will in turn repay the associated debt. After 2063 — when all related debt is paid — the highways are designed to become toll-free and the roads will return from JEHDR to direct government ownership.

For the fiscal year ending 31 March 2022 (fiscal 2021), E-NEXCO will spend ¥374.8 billion to construct new toll roads and ¥41.1 billion on large-scale maintenance activities.

E-NEXCO will continue construction work on the toll roads in particular surrounding the Greater Tokyo Area over the next few years to a decade. E-NEXCO expects these new routes to resolve the traffic bottlenecks in the area. The ground surface depressions that occurred in October 2020 in the path of the construction could result in longer construction period.

E-NEXCO is also handling the expansion of lanes in several routes to prevent traffic disruptions caused by damages from disasters, which supports E-NEXCO's role in executing the government's toll-road network policy.

Underlying performance of the company is supported by its highly predictable cash flow

E-NEXCO's highly predictable cash flow — under a stable operating environment supported by a favorable regulatory framework — allows the company to adequately manage its liquidity and relatively high financial leverage. E-NEXCO's toll revenue declined by 16.6% in fiscal 2020 from the previous year, as unnecessary travel decreased because of the pandemic. Nevertheless, the agreement with JEHDR allows E-NEXCO to reduce the leasing fee it pays to JEHDR accordingly, limiting therefore the impact from the lower revenue.

E-NEXCO has an established position in the domestic capital market, which we consider deep and mature. It has good access to commercial paper and other short-term funding and maintains short-term banking facilities up to ¥85 billion.

ESG considerations

How environmental, social and governance risks inform our credit analysis of E-NEXCO

We take into account the impact of ESG factors when assessing issuers' economic and financial strength. In the case of E-NEXCO, we assess the materiality of ESG to the credit profile as follows:

Although ESG considerations are not significant to E-NEXCO's credit profile, given its strategic role and the high likelihood of government support, we take into account the country's exposure to natural disasters, which have led to short-term disruptions in economic activity and costs of recovery; the demographic challenges that weigh on the country's potential economic growth, as well as the pandemic, while the central government is providing necessary support; and the government's sound governance framework. E-NEXCO's governance framework is intrinsically intertwined with that of the government, which exerts strong oversight and ultimately takes key decisions.

Our approach to ESG is explained in our cross-sector rating methodology [General Principles for Assessing ESG Risks Methodology](#).

Ratings

Exhibit 2

Category	Moody's Rating
EAST NIPPON EXPRESSWAY COMPANY LIMITED	
Outlook	Stable
Issuer Rating	A1
Senior Secured Shelf -Dom Curr	(P)A1

Source: Moody's Investors Service

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