

## CREDIT OPINION

3 July 2018

Update

 Rate this Research

### RATINGS

#### East Nippon Expressway Company Limited

Domicile	Japan
Long Term Rating	A1
Type	LT Issuer Rating - Dom 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 Co., Ltd.](#) (E-NEXCO, A1 stable) reflects that of the sovereign the [Government of Japan](#) (A1 stable), because of the company's importance to the construction, maintenance and operation of Japan's toll road networks, 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
- » Underlying performance of the company is supported by highly predictable cash flows

### 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

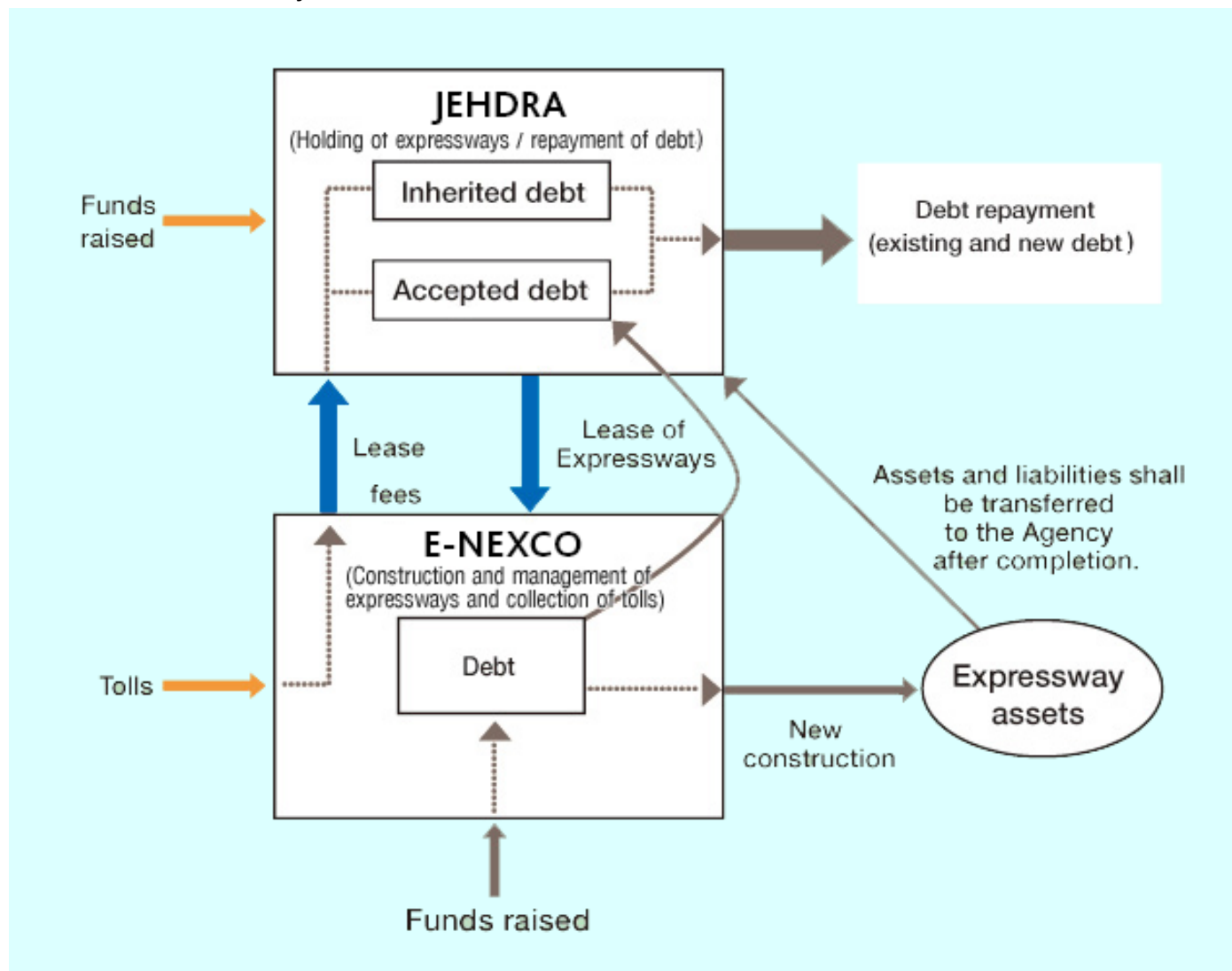
- » An upgrade of the sovereign rating.

### Factors that could lead to a downgrade

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

Exhibit 1

## Relation between E-NEXCO and JEHDR



Note: "Accepted debt" means that JEHDR becomes a joint and several obligor of E-NEXCO debt, and JEHDR will be responsible for paying this "transferred debt," i.e., JEHDR assumes E-NEXCO debt. E-NEXCO remains jointly and severally obliged after "transfer" of liabilities.

Source: JEHDR, Moody's Investors Service

## Profile

East Nippon Expressway Co., Ltd. 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 that it has for the 11 other government-related entities or Zaitos (government-related companies, financed under the government's fiscal loan and investment program) in Japan; assigning a final rating on par with the sovereign rating, without determining a Baseline Credit Assessment (BCA).

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.moodys.com](http://www.moodys.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 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 and to approve the company's 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, it primarily benefits from an agreement -- which covers planned revenues, expenditures, including leasing fees, and funding -- with the [Japan Expressway Holding and Debt Repayment Agency](#) (JEHDRA, A1, stable). Based on this agreement, the majority of its debt is designed to be transferred to JEHDRA prior to its maturity.

The agreement also limits potential revenue volatility within 1% every year. If revenues decline 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, negative impacts 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 and Transport (MLIT) 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 Japan 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. Previously, expressways would have become toll free as of 2050.

Behind the action was the government's realization of the importance of the maintenance function of E-NEXCO because of such events as the Sasago tunnel accident in December 2012, when the tunnel's ceiling collapsed and killed nine people and injured two. It was the deadliest traffic accident in Japanese history. For E-NEXCO, the longer toll collection time means additional resources for maintaining and upgrading activities totaling about ¥0.9 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, [West Nippon Expressway Co., Ltd.](#) (A1, stable), [Central Nippon Expressway Co., Ltd.](#) (A1, stable), [Metropolitan Expressway Co., Ltd.](#) (A1, stable), Hanshin Expressway Co., Ltd., Honshu-Shikoku Bridge Expressway Co., Ltd.

JEHDRA is empowered to levy leasing fees on the 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 2060 and JEHDRRA will in turn repay the associated debt. After 2060 -- when all related debt is paid -- the highways are designed to become toll free and the roads will return from JEHDRRA to direct government ownership.

E-NEXCO is seeing increased traffic from new routes that have opened within the beltway toll-road network. In June 2018, ENEXCO opened yet another route, and will continue construction on the toll-roads surrounding the greater Tokyo area through fiscal 2020, when Tokyo hosts the summer Olympic games. E-NEXCO expects these new routes will resolve traffic bottlenecks in the area.

E-NEXCO will spend ¥537.9 billion to construct new toll roads in fiscal year 2018 (ending in March 2019). The company is also increasing large-scale maintenance programs and plans ¥138.7 billion during the year.

### Underlying performance of the company is supported by highly predictable cash flows

We believe that E-NEXCO's highly predictable cash flows -- under a stable operating environment supported by a favorable regulatory framework -- also allow for adequate control of its liquidity and management of its relatively high level of financial leverage.

E-NEXCO has an established position in the domestic capital market, which we consider as deep and mature. It has good access to short-term funding, commercial paper as well as short-term banking facilities to a maximum of ¥75 billion.

## Ratings

Exhibit 2

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

Source: Moody's Investors Service

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