

CREDIT OPINION

11 September 2024

Update

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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 in the northeast of Japan and the high level of credit support from the government, as well as the government's heavy involvement in E-NEXCO's operations.

Credit strengths

- » Full ownership by the Japanese government
- » Critical role in executing Japanese policies for toll road networks
- » High degree of central government support and supervision
- » Predictable cash flow, which supports the company's underlying performance

Credit challenges

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

Rating outlook

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

Factors that could lead to an upgrade

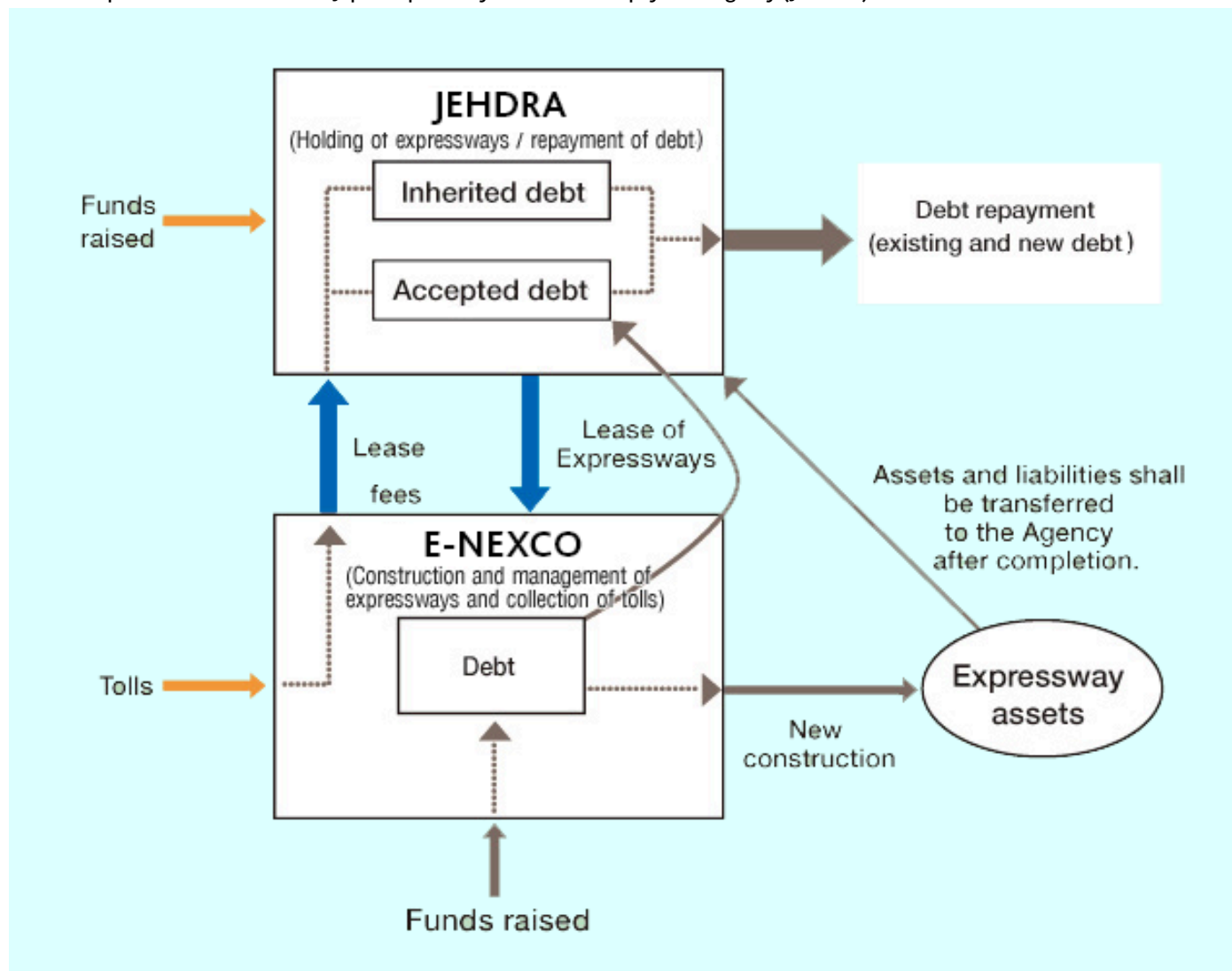
An upgrade of the sovereign rating could lead to an upgrade of E-NEXCO's rating.

Factors that could lead to a downgrade

A downgrade of the sovereign rating would lead to a downgrade of E-NEXCO's rating. Additionally, a decline in the degree 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 Japan Expressway Hld. & Debt Repayment Agency (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 obligated after the transfer of liabilities.

Sources: JEHDRA and Moody's Ratings

Profile

East Nippon Expressway Company Limited 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.

E-NEXCO was established in 2005 as a special public corporation per the Act on Expressway Companies (the Act) following the reform of Japanese highway network organizations, which triggered the dissolution of the former Japan Highway Public Corporations¹, and the incorporation of six regional highway operating companies including E-NEXCO, [West Nippon Expressway Company Limited](#) (A1 stable), [Central Nippon Expressway Company Limited](#) (A1 stable) and [Metropolitan Expressway Company Limited](#) (A1 stable), Hanshin Expressway Co., Ltd. and Honshu-Shikoku Bridge Expressway Co., Ltd.

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

Under the new structure, [Japan Expressway Hld. & Debt Repayment Agency](#) (JEHDRA, A1 stable)² owns toll roads, which it leases to six operating companies who pay leasing fees to JEHDRA. Lease payments, tolls and restrictions on construction costs are in turn stipulated in the Agreement between the two parties, in accordance with the relevant laws.

The Act requires the government to always hold more than one-third ownership in E-NEXCO and the Minister of Land, Infrastructure, Transport, and Tourism approves its major decisions, such as management appointments, operating plans, funding strategies and the issuance of equity for its toll road operations. Currently, all of E-NEXCO's shares are owned by the government, which has no plan to reduce its ownership.

Detailed credit considerations

We have adopted the same analytical approach for E-NEXCO as for the 12 other rated government-related entities or FILP agencies (or Zaitos, government-related entities financed under the government's Fiscal Investment and Loan Program [FILP]³) in Japan. We have assigned a final rating on par with the sovereign rating, without determining a Baseline Credit Assessment (BCA) based on our Government-Related Issuers rating methodology.

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

E-NEXCO plays an integral role in Japan's public transportation policy. E-NEXCO is a wholly government-owned, not-for-profit toll road operator, leasing and operating toll road assets and constructing new social assets, such as highways.

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

For the fiscal year that ended 31 April 2025 (fiscal 2024), E-NEXCO will spend ¥329.7 billion to construct new toll roads, ¥163.1 billion on large-scale maintenance activities and ¥478.3 billion on regular maintenance activities including disaster recovery.

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 emergence of ground surface depressions along the construction route in 2020 could potentially extend the duration of the construction phase.

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.

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

E-NEXCO benefits from a well-developed institutional framework designed for Japanese highway networks. According to the Act, the government may provide E-NEXCO with strong financial support, including guarantees and capital injections.

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 E-NEXCO was the enactment of laws by Japan's Diet, including an extension in 2023 of the toll collection period for an additional 50 years to 2115. This decision follows the previous extension in 2014, which extended the initial 45-year period to 60 years and planned to make tolls free by 2065 instead of 2050. This time, the amendment established an additional 50-year time frame for debt repayment. This extension underscores the importance of highway management in the Japanese government's policy. The additional revenue generated by the extension will provide additional financial resources for maintenance and upgrading of ageing infrastructure.

Relationship with JEHDRA governed by the Agreement that underpins predictable cash flow

E-NEXCO's cash flow primarily benefits from the Agreement with JEHDRA, which covers planned revenue and spending, including leasing fees. Based on the Agreement, most of E-NEXCO's debt is designed to be transferred to JEHDRA before its maturity. The Agreement also limits potential revenue volatility to within 1% every year. If revenue declines by more than 1% against the agreed upon plan, E-NEXCO can reduce the leasing fees paid to JEHDRA.

Furthermore, the Agreement allows for sufficient flexibility to tackle an unexpected change in the operating environment. For instance, any strain 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 next few years.

This favorable regulatory framework and a stable operating environment contribute to E-NEXCO's highly predictable cash flow, which allows for adequate control of the company's liquidity and management of its relatively high leverage.

Traffic has largely rebounded from the impact of the pandemic. In fiscal 2023, E-NEXCO's toll revenue rose by 3.1% from that in the previous fiscal year, to nearly 95% of the fiscal 2019 levels.

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 ¥75 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:

Environmental and social risks are not significant to E-NEXCO's credit profile, given its strategic role and the strong links with the Japanese central government, although we take into account the country's exposure to natural disasters, which have disrupted economic activity and necessitated high fiscal costs for reconstruction; and the aging and shrinking domestic working-age population that weighs on potential growth. Governance risks are significant to E-NEXCO's credit profile. Its governance is intrinsically intertwined with the central government under a sound governance framework, which provides strong supervision and ultimately makes 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 Ratings

Endnotes

- 1 These were Japan Highway Public Corp (founded in 1956), Metropolitan Expressway Public Corporation (founded in 1959), Hanshin Expressway Public Corporation (founded in 1962) and Honshu-Shikoku Bridge Authority (founded in 1970).
- 2 JEHDRA was also established in 2005 as an independent administrative agency (IAA) under the general law for IAAs and the JEHDRA Establishment Act. JEHDRA is a successor entity tasked with debt repayment following the privatization of Japan's above-mentioned four highway-related public corporations.
- 3 FILP is a financial activity conducted by the central government of Japan. It involves procuring funds through the issuance of a type of government bond called "Fiscal Investment and Loan Bonds" or "the FILP Bonds". These funds serve as a financial resource to enable the implementation of large-scale, long-term projects that are strategically necessary but difficult for the private sector to handle because of their extended duration and likely low profitability.

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