

Guide for initial investment in JEHDRA bonds

Creditworthiness is high due to statutory deadline to complete debt repayment; also has strong social significance

- Japan Expressway Holding and Debt Repayment Agency (JEHDRA) is a public corporation that holds expressway assets and repays related debt
- The completion of debt repayment by 2065 is a legal obligation, suggesting a high degree of certainty regarding debt repayment
- Final last-minute new route construction projects are expected in the near term, but debt outstanding is likely to continue to decrease after reaching a peak in FY21
- Investment in JEHDRA bonds has strong social significance, such as contributing to the environment and economic/social development

Credit Memorandum JCRE420

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Holds expressway assets and repays debt

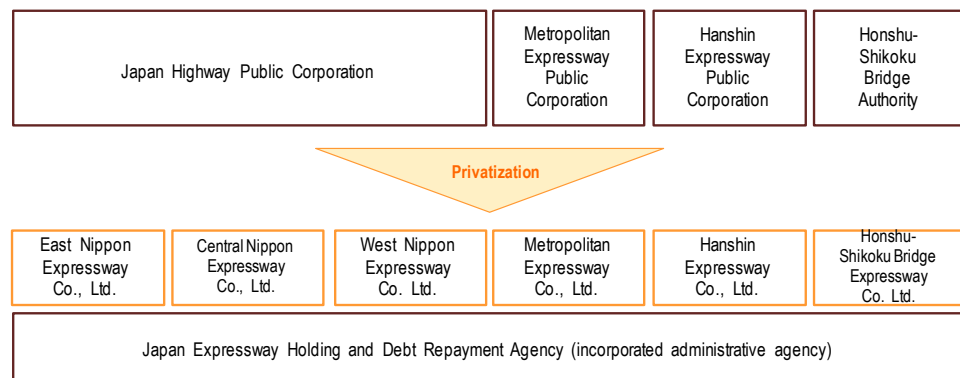
Holds expressway assets and repays debt

As suggested by the name, Japan Expressway Holding and Debt Repayment Agency (JEHDRA) holds expressway assets and repays debt needed for construction. Roads are built and managed by six expressway firms according to region. Since the privatization of expressway firms by the Koizumi administration, the holding of roads has been separated from construction/management (Chart 1).

Leasing fees from expressway firms are sources of debt repayment

JEHDRA holds expressways and leases them to expressway firms. Expressway firms collect tolls from users via road management, and pay leasing fees to JEHDRA after deducting management costs. JEHDRA repays expressway construction debt using leasing fees.

Chart 1: Outline of Privatization of Expressway Companies



Source: Compiled by Daiwa Securities.

JEHDRA is a public corporation wholly owned by the government and local public bodies

Privatization led to greater certainty regarding debt repayment

Although expressway firms were privatized, they were not fully privatized, unlike East Japan Railway and Central Japan Railway. JEHDRA is a public corporation wholly owned by the government and local public bodies. Meanwhile, expressway companies became joint stock companies, but they are also public corporations wholly owned by the government and local public bodies.

Privatization led to greater certainty of debt repayment by JEHDRA

Privatization led to greater certainty regarding debt repayment by JEHDRA. The completion of debt repayment by 2065 is a legal obligation that prevents expressway firms from building low-margin roads or continuing construction without limits. Separately, expressways that fulfill social needs but generate low margins are constructed using taxes collected by government/local public bodies, and they are provided as toll-free highways from the initial stage.

Plans for income, cost, and debt formulated through FY65

Regarding construction costs, new debt, expressway toll income, management costs, leasing fees, debt redemption, and debt outstanding, annual plans have been formulated through FY65 to secure completion of debt repayment by 2065.

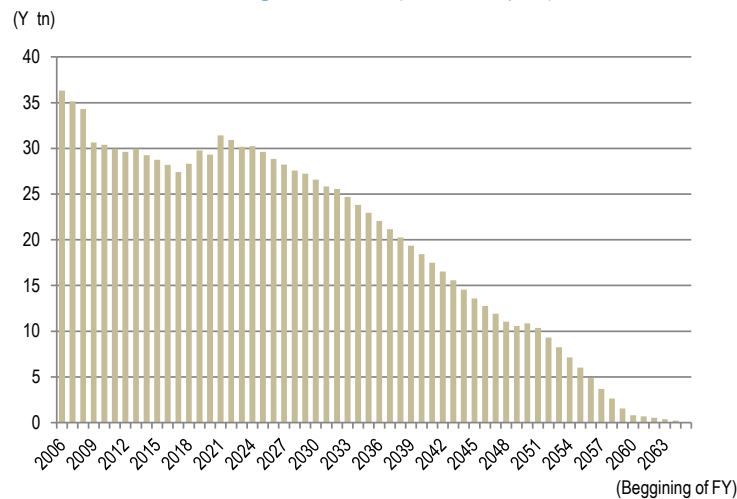
JEHDRA secured around Y1.7tn for debt repayment in FY16

Expressway firms are cash rich as they receive expressway toll income on a daily basis via cash-cow routes across the nation (such as the Tomei Expressway). JEHDRA is also cash rich as it receives leasing fees from expressway firms. In FY16, JEHDRA secured around Y1.7tn in cash flow from operating activities—i.e., resources used to repay debt.

Debt outstanding to continue to decrease after completion of new route construction

On the other hand, debt outstanding at JEHDRA stood at Y27.9tn at end-FY16. To date, the pace of reduction in debt outstanding has been moderate. On the contrary, debt outstanding is expected to increase over the next several years due to the booking of final last-minute new route construction projects. After that, JEHDRA will focus on debt repayment as construction work is expected to be limited to refurbishment work. Plans call for debt outstanding to continue to decrease after reaching a peak in FY21 (Chart 2).

Chart 2: Debt Outstanding at JEHDRA (actual and plan)



Source: Company materials; compiled by Daiwa Securities.

Steady debt repayment but cautious plan for future toll income

JEHDRA has been steadily repaying debt. At end-FY16, debt outstanding was around Y1tn less than the planned figure. In addition, expressway toll income is expected to gradually decline in the future. This is a cautious plan, factoring in Japan’s shrinking population.

Also contributes to the environment and economic/social development

Investment in JEHDRA bonds also has social significance

JEHDRA is a government-affiliated corporation that is legally constrained by the obligation to complete debt repayment by 2065. We note that investment in creditworthy JEHDRA bonds also has social significance.

Contribution to economic/social development

First is the contribution to economic/social development. We can liken roads to the blood vessels of the economy/society, and mainline expressways to the aorta. Construction of new expressways increases passenger traffic and distribution of goods, leading to regional development.

Contribution to decline in CO2 emissions

Second is the contribution to the environment. It is well known that relieving traffic jams on ordinary roads via expressway construction improves automobile speed and fuel efficiency, leading to a decline in CO2 emissions. Traffic jams on existing expressways are eased by construction of (1) new expressways (such as the Second Tomei Expressway and the Second Meishin Expressway) roughly in parallel with the existing main expressways and (2) circular expressways that enable drivers to bypass urban areas.

Investment in JEHDRA bonds recommended

We thus recommend investing in creditworthy JEHDRA bonds, which also carry strong social significance.

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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