Conference Call on FY2022 Financial Results - Main Questions and Answers

2023.05.11

TOKYU CORPORATION

※ Please note in advance that this is not a transcription of the entire Q&A session, but a brief summary prepared by the Company.

Q1. Regarding real estate leasing, profit declined year on year in FY2022, and you have forecast a year-on-year increase for FY2023. When costs expected to continue increasing in FY2023, what are the factors behind your projection of increased profit?

A1. For the FY2022 results, in addition to the impact of increased overall costs including energy costs, in light of overall consolidated profit trends we spent more than planned, on repair and maintenance expenses, which we had been restricting since the outbreak of COVID-19. That is why we recorded increased revenue and a decline in profit. In our FY2023 forecast, there continue to be some difficult aspects on the cost front, but real estate leasing is a growth driver for Tokyu Corporation, and we will aim to increase operating profit in various ways, such as passing on energy costs to tenants and engaging in overall cost control.

Q2. What factors will drive a recovery in the hotel business in FY2023? Additionally, it looks like sharply rising personnel and energy costs will have an impact. How much of a rise in energy costs do you expect in the hotel and resort business in FY2023?

A2. Regarding the hotel business, we expect the business environment in FY2023 to improve further. In addition to higher occupancy rates, we project that ADR (average daily rate) in particular will rise. In FY2022, occupancy rates exhibited a gradual recovery from the second half of the year, and considering a positive trend in the business environment for FY2023, we project further profit increase. We expect another operating loss in the Hotel and Resort Business overall in FY2023, with costs associated with the opening of the two hotels in Tokyu Kabukicho Tower playing a big part, but among our existing hotels we forecast operating profit of around 4 billion yen. Additionally, we expect energy costs in the Hotel and Resort Business to rise by 20-30% in FY2023.

Q3. For the hotel business, you are assuming quite a high ADR in your plans for FY2023, but you are still recording an operating loss as a segment. Would it be correct to assume that Tokyu Kabukicho Tower plays a big part in this? Or are there other reasons, such as a delayed recovery in banquet operations?

A3. The opening of Tokyu Kabukicho Tower will have a major impact on the recording of losses in the next fiscal year. We project a loss of just under 3 billion yen. The opening costs are quite significant, and for the more than 600 guest rooms, we expect an impact in the billions of yen for the purchase of fixtures alone, which is not included under capital expenditure. Excluding the operating loss associated with Tokyu Kabukicho Tower, operating profit in the Hotel and Resort Business will be around 0.8 billion yen. In addition, if you add improved profits for our MC Hotels, which are part of the real estate segment, as well as the one-off opening costs for a new hotel in Sapporo, in FY2023 we believe operating profit across all of our existing hotels will be around 2.6 billion yen, suggesting a steady recovery.

Q4. Regarding your forecast power costs in the Railway Business for FY2023, do you expect current levels to have an impact over the full year? And what are your thoughts on the normalization of power costs?

A4. We are also considering internally whether the current trend of power costs will continue through the full year in FY2023, and we recognize the need to closely monitor the situation going forward. In the Railway Business we project power costs of 11.8 billion yen in FY2023, up from 8.6 billion yen in FY2022. This projection is a number we arrived at after careful examination in April 2023, and we recognize that it is a figure that will be revised as needed on a quarterly basis going forward.

Q5. It seems that operating profit from Tokyu Kabukicho Tower will be recorded across multiple business segments. What is the breakdown of that monetary impact?

A5. For FY2023, we expect to generate revenue of 15 billion yen from the entire building, including business income and expenditure, but in addition to the opening costs, one-off expenditures associated with the purchase of fixtures for the hotels and other areas will also have an impact, so we project an operating loss in the mid-3 billion yen range. The majority of this operating loss will be recorded under the Hotel and Resort Business. After opening, the burden of facility-related depreciation will be significant to a certain amount, but once income and expenditures stabilize, we expect it to contribute around 4 billion yen per year to EBITDA.

Q6. Was the 16 billion yen for operating profit in real estate sales in FY2023 the figure you had initially planned? Or did you add to sales despite cost increases and other factors placing downward pressure on profit? If there are no special factors, will this profit level continue in the future?

A6. In addition to the certain level of condominium sales from properties such as Dresser Tower Minami Machida Grandberry Park and Dresser Tower Shin Tsunashima that we had initially planned, other factors leading to the increase included the handover of asset-turnover building projects whose sales timing was pushed back from FY2022. We therefore expect a significant increase in profit compared with FY2022.
Regarding future operating profit levels in real estate sales, we are aiming for a level that can contribute a little under 10 billion yen to operating profit on a stable basis, but as this is a business that involves some degree of volatility due to property handover timing and other factors, it is also possible that a reactionary decline to some extent in FY2024. We will also consider future profit levels for real estate sales in the next medium-term management plan.

Q7. Regarding the 18.2 billion yen in forecast operating profit for Tokyu Railways in FY2023, revenue has recovered compared with pre-pandemic revenue due to fare revisions, but operating profit has still not recovered to pre-pandemic levels. Is this due to the impact of cost increases such as higher power costs?

A7. Yes. In terms of revenue, we expect a recovery up to 1.8% short of FY2019 levels due to fare revisions, but operating profit will not reach pre-pandemic levels due to increased power costs. Through initiatives to restructure the operating expenses of Tokyu Railways, we have continuously reduced costs by around 5 billion yen, but power costs that were formerly 5-6 billion yen are expected to be 11.8 billion yen in FY2023, which will have a significant impact.