

Three JR companies

Recommending JR East as standout

- **Investment view** — We raise our target prices for the three JR railway operators in light of revised earnings forecasts and higher valuations across the market. We lift our target price for JR East to ¥8,000 (FY3/14E PER 15x) from ¥6,000, our target price for JR West to ¥4,300 (FY3/14E PER 12x–13x) from ¥4,000, and our target price for JR Central to ¥9,200 (FY3/15E PER 10x). Our ratings are unchanged. We particularly recommend JR East on the strength of its growth potential and real estate. We feel JR West's share price has been lagging and reiterate our Buy rating.
- **JR East** — We raise our FY3/14 OP forecast for JR East to ¥415bn (+4.5% YoY) from ¥411bn. We anticipate 2.2% YoY growth in non-commuter pass shinkansen revenues and 1.2% growth in non-commuter pass Kanto conventional line revenues. With higher yields accompanying the increase in shinkansen speeds, expectations of brisk demand for tourist travel to Tohoku, and prospects for continued growth in passenger travel related to reconstruction demand supported by stepped-up public works spending, we expect growth in JR's railway revenues will exceed other companies'. High development potential in the Tokyo area and medium-term growth prospects accompanying improved competitiveness in shinkansen revenues are appealing, and the company has substantial unrealized gains on real estate. We therefore think share price valuations may exceed market averages and peers.
- **JR West** — We maintain our FY3/14 OP forecast of ¥132bn for JR West. We expect 0.8% YoY growth in shinkansen revenues and 1.0% growth in non-commuter pass Kinki District railway revenues. While we expect the domestic economy to improve and tourist demand to be firm, growth may be held down somewhat by increasing airline supply capacity between Kyushu and Kansai. On conventional lines, we expect benefits from full-year contributions from the Hankyu flagship department store and new facilities in stations, as well as the opening of Grand Front Osaka. While lacking growth appeal, the shares' valuations still appear to be lagging based on FY3/14 earnings forecasts, and we maintain our Buy rating. We think good news in terms of shareholder returns in the medium-term plan and longer-term growth prospects is required to give the shares a big boost.
- **JR Central** — Certain assumptions underlying our forecasts for JR Central are based on large-scale improvement work being brought forward. We expect FY3/14 OP will temporarily swell to ¥433bn, but then drop back to ¥386.2bn in FY3/15. We look for 1.5% growth in FY3/14 shinkansen revenues supported by improvement in the domestic economy. While we think the uptrend in shinkansen revenues will continue, we consider the shares fairly valued.

Akira Funae

+81-3-6270-4765

akira.funae@citi.com

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
East Japan	9020	1	1	¥6,000	¥8,000	¥453	¥459
JR West	9021	1	1	¥4,000	¥4,300	¥310	¥310
CJR	9022	2	2	¥7,700	¥9,200	¥986	¥990

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Railroad valuations

	Ticker	Rating	PER(X)				PBR(X)				PCFR(X)			
			3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E
East Japan Railway	9020	1	24.1	14.7	12.6	11.8	1.40	1.31	1.22	1.13	4.7	4.8	4.5	4.2
West Japan Railway	9021	1	25.0	12.3	10.8	10.1	1.05	0.99	0.94	0.88	3.6	3.0	3.3	3.2
Central Japan Railway	9022	2	12.3	8.4	7.9	9.0	1.24	1.10	0.97	0.89	3.7	3.5	3.6	3.4
Tobu Railway	9001	1	32.9	19.9	18.8	19.4	1.90	1.77	1.65	1.55	6.8	5.9	6.0	6.4
Tokyu Corporation	9005	1	17.7	23.0	18.9	18.2	1.47	1.41	1.43	1.36	4.4	5.4	5.2	6.5
Odakyu Electric Railway	9007	2	37.5	32.9	31.7	27.4	3.06	2.86	2.68	2.50	8.6	8.5	8.3	8.4
Keio Corporation	9008	2	33.9	29.7	29.3	24.0	1.62	1.56	1.50	1.43	7.8	5.2	8.3	7.7
Keisei Electric Railway	9009	2	20.4	15.3	14.9	14.8	1.46	1.34	1.24	1.16	8.8	7.5	7.7	7.9
Hankyu Hanshin Holdings	9042	2	16.0	16.6	14.7	13.8	1.22	1.15	1.08	1.01	5.0	6.7	6.4	6.3
	Target	Share price (¥)	EV/EBITDA(X)				Debt/equity ratio (x)				Dividend yield (%)			
	price (¥)	13/2/2013	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E
East Japan Railway	8,000	6,630	8.2	7.8	7.4	6.8	1.8	1.6	1.5	1.3	1.7	1.8	2.3	2.4
West Japan Railway	4,300	3,805	6.4	6.0	5.8	5.7	1.5	1.3	1.2	1.1	2.4	2.9	3.2	3.4
Central Japan Railway	9,200	8,330	7.1	6.6	6.0	5.7	2.1	1.8	1.5	1.3	1.1	1.2	1.2	1.2
Tobu Railway	500	493	16.1	12.9	12.4	12.2	3.0	2.7	2.5	2.3	1.0	1.2	1.2	1.2
Tokyu Corporation	440	507	12.7	13.0	12.9	11.8	2.3	2.3	2.4	2.3	1.3	1.4	1.5	1.6
Odakyu Electric Railway		926	15.0	14.9	15.5	14.4	3.5	3.2	3.1	2.9	0.8	0.8	0.9	0.9
Keio Corporation		690	10.8	10.7	10.6	9.8	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Keisei Electric Railway		812	13.4	12.0	11.6	11.5	1.5	1.4	1.2	1.2	0.6	0.7	0.7	0.8
Hankyu Hanshin Holdings		497	13.3	12.6	12.1	11.7	2.2	2.1	1.9	1.7	1.0	1.0	1.0	1.0
	Market cap (¥bn)	WACC(%)	ROIC(%)				ROE(%)				ROA(%)			
		3/12	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E
East Japan Railway	2,622.6	3.3	3.5	3.8	3.9	4.0	5.9	9.2	10.0	10.0	5.1	5.6	5.8	6.0
West Japan Railway	736.8	3.0	3.0	3.5	3.6	3.7	4.2	8.3	8.9	9.0	4.1	4.8	5.0	5.2
Central Japan Railway	1,639.3	5.0	5.2	5.7	5.8	5.2	10.5	13.8	13.1	10.3	7.2	8.0	8.1	7.3
Tobu Railway	526.9	5.2	1.6	2.3	2.5	2.4	6.0	9.2	9.1	8.2	2.6	3.8	4.0	7.9
Tokyu Corporation	634.2	2.7	2.3	2.1	2.2	2.7	8.6	6.3	7.5	7.6	2.9	2.7	2.8	3.5
Odakyu Electric Railway	668.5	2.9	2.0	2.3	2.2	2.4	8.4	9.0	8.7	9.5	3.1	3.4	3.4	3.7
Keio Corporation	421.6	3.0	2.8	2.7	2.7	3.1	4.9	5.3	5.2	6.1	4.0	3.6	3.6	4.2
Keisei Electric Railway	280.0	3.1	3.7	4.4	4.6	4.6	7.4	9.2	8.7	8.1	2.8	3.2	3.3	3.3
Hankyu Hanshin Holdings	627.0	2.3	2.4	2.6	2.7	2.8	7.9	7.1	7.6	7.6	3.3	3.6	3.7	3.8
	Expected total return		EPS (¥)				BPS(¥)				OP(¥bn)			
			3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E	3/12	3/13E	3/14E	3/15E
East Japan Railway	22.5%		274.9	459.3	525.0	564.2	4,739	5,080	5,445	5,859	360.0	397.0	415.0	435.0
West Japan Railway	15.9%		152.3	309.9	352.7	376.0	3,632	3,832	4,065	4,311	109.8	125.0	132.0	137.4
Central Japan Railway	11.6%		675	990	1,058	926	6,716	7,606	8,565	9,391	372.5	421.0	433.0	386.2
Tobu Railway	2.6%		15.0	24.8	26.3	25.4	260	279	299	319	32.6	49.5	53.0	51.5
Tokyu Corporation	-11.8%		28.7	22.0	26.9	27.8	344	359	354	374	55.0	52.7	57.0	72.2
Odakyu Electric Railway	-		24.7	28.1	29.2	33.8	303	324	345	370	38.6	43.5	43.7	49.0
Keio Corporation	-		20.3	23.2	23.6	28.8	426	443	461	484	29.6	28.3	29.0	34.2
Keisei Electric Railway	-		39.8	53.2	54.6	54.9	556	604	653	701	19.9	23.0	24.0	24.4
Hankyu Hanshin Holdings	-		31.1	30.0	33.7	36.0	407	432	461	492	73.8	81.0	83.0	85.5

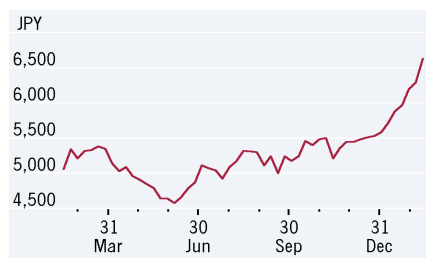
Source: Company data, Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (13 Feb 13)	¥6,630
Target price	¥8,000
from ¥6,000	
Expected share price return	20.7%
Expected dividend yield	2.0%
Expected total return	22.6%
Market Cap	¥2,621,489M
	US\$28,070M

Price Performance
(RIC: 9020.T, BB: 9020 JP)



East Japan Railway (9020)

We remain positive on solid earnings, growth potential

- **Investment view** — We raise our target price for JR East to ¥8,000 from ¥6,000 to reflect revised earnings forecasts and higher valuations across the market. We adjust our valuation multiple to a FY3/14E of PER 15x from a FY3/13E PER of 13x. Taking into account longer-term growth prospects accompanying improving shinkansen competitiveness and development in the Kanto region as well as substantial unrealized gains on real estate, we think it is possible to value the shares in line with the market.
- **FY3/13 forecasts** — We raise our FY3/13 OP forecast slightly, to ¥397bn from ¥395bn. While this takes into account ¥4bn in additional employee compensation costs, it also reflects higher expectations of railway revenues based on Q3 results and current trends.
- **FY3/14 forecasts** — We raise our FY3/14 OP forecast to ¥415bn from ¥411bn. While our estimate of costs is ¥7.3bn higher, we raise our assumption of railway revenues by ¥11.3bn to reflect an improving domestic economy. We anticipate 2.2% YoY growth in non-commuter pass shinkansen revenues and 1.2% growth in non-commuter pass Kanto conventional line revenues. As the domestic economy improves, we anticipate a rebound in business demand, which has been a bit soft. Tourist demand, particularly among older people, is also likely to remain firm. With higher yields accompanying the increase in shinkansen speeds, expectations of brisk demand for tourist travel to Tohoku (the company plans two Tohoku travel campaigns), and prospects for continued growth in passenger travel related to reconstruction demand supported by stepped-up public works spending, we expect growth in JR's railway revenues will exceed that of other companies. On the costs side, winter bonuses were higher this year and we expect the coming summer bonuses will be up as well. Maintenance and administrative costs will probably be on the high side, as in FY3/13.
- **Real estate** — As of end-FY3/12, unrealized gains on real estate stood at a substantial ¥800bn plus (about 25% of shareholders' equity). The company will continue to pursue large-scale development projects in areas along the Yamanote Line, including a large project in the Shinagawa area (scheduled for the 2020s), redevelopment of Shibuya station (2020–27), the Shinjuku Station South Exit Building (spring 2016), and redevelopment of the World Trade Center Building in Hamamatsucho (FY3/25). Not only will these bolster real estate profitability, they are likely to have positive effects for railway revenues in the Kanto district.
- **Shareholder returns** — JR East's dividend benchmark is a payout ratio of 33%. While it has not committed to specific timing, the current dividend forecast of ¥120 is only around 26% based on our EPS forecast. There is significant leeway in free cash flows, so we would like to see measures such as dividend hikes or share buybacks.

Consol.	Sales		OP			RP		NP		EPS		PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X	
3/11A	2,537,353	-1.4	345,086	0.1	13.6	254,564	8.3	76,224	-36.6	193	34.4	
3/12A	2,532,173	-0.2	360,024	4.3	14.2	272,182	6.9	108,737	42.7	275	24.1	
3/13CE	2,651,000	4.7	386,000	7.2	14.6	306,000	12.4	174,000	60.0	440	15.1	
3/13E	2,664,500	5.2	395,000	9.7	14.8	315,000	15.7	179,000	64.6	453	14.6	
3/13RE	2,670,500	5.5	397,000	10.3	14.9	317,000	16.5	181,500	66.9	459	14.4	
3/14E	2,703,100	1.4	411,000	4.1	15.2	336,500	6.8	207,600	16.0	525	12.6	
3/14RE	2,714,400	1.6	415,000	4.5	15.3	336,500	6.2	207,600	14.4	525	12.6	
3/15E	2,744,500	1.5	428,000	4.1	15.6	358,500	6.5	221,300	6.6	560	11.8	
3/15RE	2,758,900	1.6	435,000	4.8	15.8	361,500	7.4	223,100	7.5	564	11.8	

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

9020.T: Fiscal year end 31-Mar						Price: ¥6,630; TP: ¥8,000; Market Cap: ¥2,621,489m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	2,537,353	2,532,173	2,670,500	2,714,400	2,758,900	PE (x)	34.4	24.1	14.4	12.6	11.8
Cost of sales	-1,734,358	-1,710,615	-1,813,500	-1,834,400	-1,853,900	PB (x)	1.4	1.4	1.3	1.2	1.1
Gross profit	802,995	821,558	857,000	880,000	905,000	EV/EBITDA (x)	8.7	8.5	8.1	7.8	7.1
Gross Margin (%)	31.6	32.4	32.1	32.4	32.8	FCF yield (%)	0.8	5.8	3.3	4.7	6.4
EBITDA (Adj)	711,500	718,728	750,500	781,500	845,000	Dividend yield (%)	1.7	1.7	1.8	2.3	2.4
EBITDA Margin (Adj) (%)	28.0	28.4	28.1	28.8	30.6	Payout ratio (%)	57	40	26	29	28
Depreciation	-366,414	-358,704	-353,500	-366,500	-410,000	ROE (%)	4.2	5.9	9.3	10.0	10.0
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	345,086	360,024	397,000	415,000	435,000	EBITDA	711,500	718,728	750,500	781,500	845,000
EBIT Margin (Adj) (%)	13.6	14.2	14.9	15.3	15.8	Working capital	-24,464	-1,492	-17,182	-6,000	-6,000
Net interest	105,918	101,072	96,701	92,187	87,199	Other	-178,190	-158,586	-166,500	-192,400	-211,900
Non-op/Except	-196,440	-188,914	-176,701	-170,687	-160,699	Operating cashflow	508,846	558,650	566,818	583,100	627,100
Recurring profit	254,564	272,182	317,000	336,500	361,500	Capex	-488,918	-407,622	-480,000	-460,000	-460,000
Tax	-69,857	-124,309	-127,500	-127,900	-137,400	Net acq/disposals	20,692	8,865	0	0	0
Extraord./Min.Int./Pref.div.	-108,483	-39,136	-8,000	-1,000	-1,000	Other	35,048	28,073	0	0	0
Reported net profit	76,224	108,737	181,500	207,600	223,100	Investing cashflow	-433,178	-370,684	-480,000	-460,000	-460,000
Net Margin (%)	3.0	4.3	6.8	7.6	8.1	Dividends paid	-43,525	-43,525	-47,448	-59,310	-63,264
Core NPAT	76,224	108,737	181,500	207,600	223,100	Financing cashflow	-27,512	-152,428	-90,284	-130,548	-164,418
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	48,156	35,538	-3,466	-7,448	2,682
Reported EPS (¥)	193	275	459	525	564	Free cashflow to s/holders	19,928	151,028	86,818	123,100	167,100
Core EPS (¥)	193	275	459	525	564						
EPS* (¥)	193	275	459	525	564						
DPS (¥)	110	110	120	150	160						
CFPS (¥)	1,286	1,412	1,434	1,475	1,586						
FCFPS (¥)	50	382	220	311	423						
BVPS (¥)	4,574	4,739	5,080	5,455	5,859						
Wtd avg ord shares (m)	396	396	395	395	395						
Wtd avg diluted shares (m)	396	396	395	395	395						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	-1.4	-0.2	5.5	1.6	1.6						
EBIT (Adj) (%)	0.1	4.3	10.3	4.5	4.8						
Core NPAT (%)	-36.6	42.7	66.9	14.4	7.5						
Core EPS (%)	-36.6	42.7	67.0	14.4	7.5						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	132,247	105,722	102,256	94,809	97,491						
Accounts receivables	270,289	321,735	339,000	345,000	351,000						
Inventory	44,017	51,936	55,000	56,000	57,000						
Net fixed & other tangibles	5,903,502	5,864,203	5,938,703	6,017,203	6,067,202						
Goodwill & intangibles	98,065	87,712	87,712	87,712	87,712						
Financial & other assets	594,779	629,101	633,101	634,101	635,101						
Total assets	7,042,899	7,060,409	7,155,772	7,234,824	7,295,506						
Accounts payable	36,006	50,853	54,000	55,000	56,000						
Short-term debt	361,146	354,454	340,856	330,772	296,545						
Long-term debt	3,062,740	3,031,788	3,002,550	2,941,396	2,874,469						
Provisions & other liab	1,748,453	1,732,681	1,732,681	1,732,681	1,732,681						
Total liabilities	5,208,345	5,169,776	5,130,087	5,059,849	4,959,695						
Shareholders' equity	1,809,355	1,874,404	2,008,456	2,156,747	2,316,583						
Minority interests	25,199	16,229	17,229	18,229	19,228						
Total equity	1,834,554	1,890,633	2,025,685	2,174,975	2,335,811						
Net debt	3,291,639	3,280,520	3,241,150	3,177,359	3,073,523						
Net debt to equity (%)	179.4	173.5	160.0	146.1	131.6						

Note: Consolidated data. * EPS: NP/Est Shares OS.

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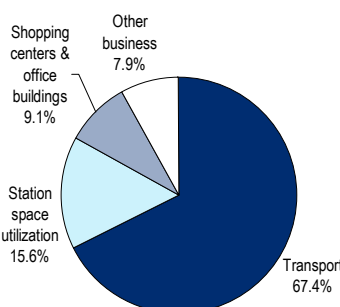
East Japan (9020) Investment Dashboard

Reasons to Buy

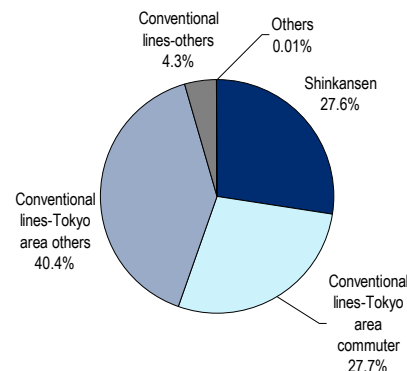
- We expect shinkansen revenue to rise as business demand picks up due to improvement for the domestic economy. In addition, we think reconstruction support demand and tourism demand will be firm too
- We look for earnings expansion in both transportation and non-transportation businesses and see significant upside to medium-term plan targets
- Long term large-scale development is set to continue at terminal stations, real estate earnings are likely to increase, and rail revenue in the Kanto area is likely to rise
- We see scope for higher DPS and/or share buybacks

Sales breakdown (FY3/12)

By segment



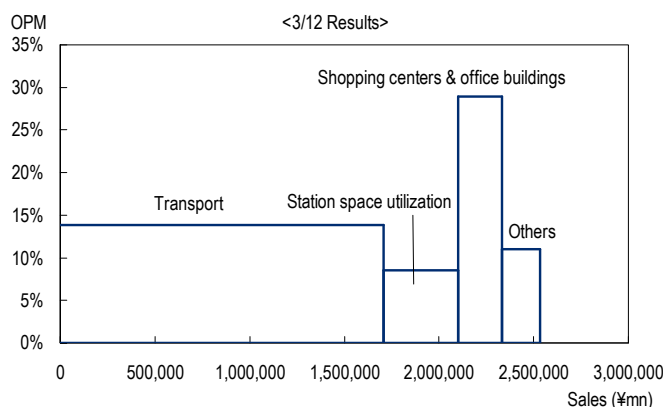
Breakdown of Transport



Source: Company data.

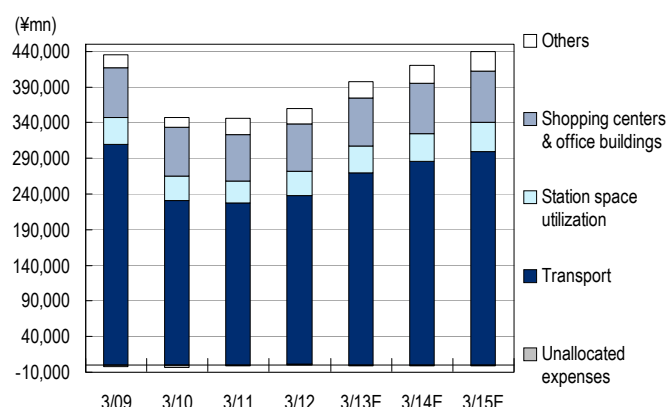
Business portfolio

<3/12 Results>



Source: Company data.

OP by segment

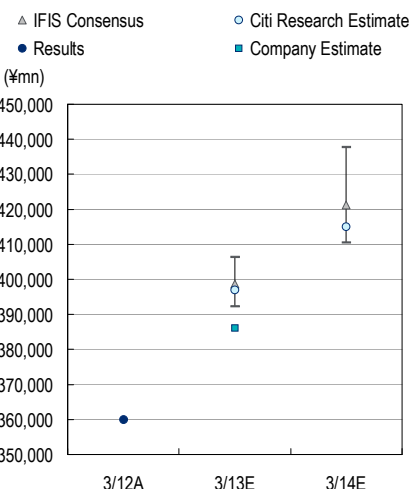


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

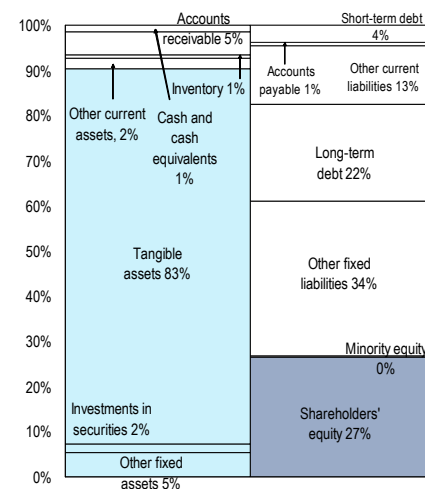
- If the spike in demand for travel on the Tohoku shinkansen stemming from reconstruction support is followed by a larger-than-expected decline
- If tourism demand slows
- If profit growth in non-transportation businesses is slower than we expect
- Should there be an unexpected increase in costs or spending

OP forecast comparison



Source: Company data, IFIS (February 13), Citi Research.

Balance sheet (end-FY3/12)



Source: Company data.

Figure 2. JR East: Consolidated sales and OP by segment

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue	569.0	654.7	659.4	649.1	2,532.2	645.3	676.2	679.8	669.1	2,651.0	2,664.5	2,670.5	2,703.1	2,714.4	2,744.5	2,758.9
YoY (%)	-9.8	-1.2	0.7	10.3	-0.2	13.4	3.3	3.1	3.1	4.7	5.2	5.5	1.4	1.6	1.5	1.6
Transport	381.1	448.8	442.2	433.7	1,705.8	437.6	466.3	450.5	437.6	1,778.0	1,785.5	1,792.0	1,804.6	1,815.9	1,816.5	1,830.9
Station space utilization	90.5	102.4	104.5	98.8	396.2	100.1	102.2	105.0	99.4	406.0	407.0	406.8	412.5	412.5	418.0	418.0
Shopping centers & office buildings	55.1	55.9	60.5	58.2	229.6	56.8	57.9	62.4	62.8	238.0	240.0	240.0	243.0	243.0	252.0	252.0
Others	42.3	47.5	52.3	58.4	200.6	50.7	49.8	61.9	69.3	229.0	232.0	231.7	243.0	243.0	258.0	258.0
Operating profit	78.2	119.3	124.6	38.0	360.0	125.9	128.3	114.0	28.8	386.0	395.0	397.0	411.0	415.0	428.0	435.0
YoY (%)	-32.4	0.6	14.0	2,534.6	4.3	61.1	7.5	-8.5	-24.2	7.2	9.7	10.3	4.1	4.5	4.1	4.8
Transport	51.0	88.5	90.5	6.8	236.6	96.4	96.9	76.7	0.0	263.0	268.0	270.0	278.0	282.0	288.0	295.0
Station space utilization	6.5	9.8	10.2	7.5	34.0	9.3	10.3	10.8	6.6	35.0	37.0	37.0	39.0	39.0	41.0	41.0
Shopping centers & office buildings	18.0	16.3	18.2	14.0	66.5	17.9	16.2	18.7	15.1	67.0	68.0	68.0	70.0	70.0	72.0	72.0
Others	2.0	4.3	5.5	10.2	22.0	1.6	4.5	7.8	9.1	22.0	23.0	23.0	25.0	25.0	28.0	28.0
OP - intercompany elimination	0.7	0.4	0.2	-0.5	0.9	0.6	0.4	0.0	-2.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

Source: Company data, Citi Research.

Figure 3. JR East: Parent earnings and passenger data

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue (a) + (b)	407.1	477.0	470.3	463.0	1,817.4	465.7	494.3	479.6	467.1	1,893.0	1,900.2	1,906.7	1,918.6	1,929.9	1,939.5	1,953.9
•YoY (%)	-11.4	-1.5	0.6	10.4	-0.7	14.4	3.6	2.0	0.9	4.2	4.6	4.9	1.0	1.2	1.1	1.2
(a) Transportation revenues	357.0	421.3	414.2	402.9	1,595.4	411.1	437.6	423.1	405.9	1,665.0	1,671.2	1,677.7	1,686.6	1,697.9	1,704.5	1,718.9
Passenger revenue (1)+(2)+(3)	357.0	421.0	414.2	402.9	1,595.1	410.8	437.6	423.1	406.0	1,664.6	1,671.0	1,677.5	1,686.4	1,697.7	1,704.3	1,718.7
•YoY (%)	-11.9	-1.7	0.5	10.8	-0.9	15.1	3.9	2.1	0.8	4.4	4.8	5.2	0.9	1.2	1.1	1.2
(1) Shinkansen revenues	81.5	125.1	117.8	115.2	439.6	115.7	133.5	124.1	117.4	487.7	490.2	490.7	499.2	501.1	511.7	515.1
•YoY (%)	-22.1	4.2	5.4	21.2	1.9	42.0	6.7	5.3	1.9	10.9	11.5	11.6	1.8	2.1	2.5	2.8
(2) Conventional lines revenues(Kanto area network)	260.7	276.7	278.7	270.8	1,086.9	277.7	284.2	281.0	272.0	1,107.6	1,110.9	1,114.9	1,117.4	1,124.7	1,123.0	1,131.9
•YoY (%)	-7.2	-3.3	-0.8	7.0	-1.3	6.5	2.7	0.8	0.4	1.9	2.2	2.6	0.6	0.9	0.5	0.6
Commuter	111.6	110.8	111.5	107.8	441.7	113.1	112.6	111.7	107.2	445.0	444.6	444.6	445.1	446.4	444.6	445.5
•YoY (%)	-2.4	-2.0	-1.1	-0.7	-1.6	1.3	1.6	0.2	-0.5	0.7	0.7	0.7	0.1	0.4	-0.1	-0.2
Others	149.1	165.9	167.2	163.0	645.2	164.6	171.6	169.3	164.8	662.6	666.3	670.3	672.3	678.3	678.3	686.4
•YoY (%)	-10.4	-4.0	-0.7	12.9	-1.1	10.4	3.4	1.3	1.1	2.7	3.3	3.9	0.9	1.2	0.9	1.2
(3) Conventional lines revenues (others)	14.6	19.4	17.7	16.9	68.6	17.4	19.9	18.0	16.6	69.3	69.9	71.9	69.9	71.9	69.6	71.6
•YoY (%)	-24.8	-12.2	-7.3	6.8	-10.5	18.5	2.6	1.7	-1.6	1.0	1.9	4.9	0.0	-0.1	-0.3	-0.4
Commuter	4.5	4.8	4.7	4.4	18.4	4.8	4.8	4.8	4.2	18.8	18.7	18.6	18.6	18.7	18.6	18.6
•YoY (%)	-10.8	-5.9	-6.0	0.8	-6.0	5.9	0.0	2.1	-3.5	2.2	1.5	1.3	-0.2	0.3	-0.2	-0.3
Others	10.1	14.6	13.0	12.5	50.2	12.6	15.1	13.2	12.4	50.5	51.2	53.3	51.2	53.2	51.0	53.0
•YoY (%)	-29.8	-14.1	-7.8	9.1	-12.0	24.1	3.4	1.5	-0.9	0.6	2.0	6.2	0.0	-0.2	-0.4	-0.4
Traffic volume (mn passenger-km) (1)+(2)+(3)	30,170	32,580	31,820	30,491	125,061	32,300	33,201	32,208	30,651	127,712	128,040	128,360	128,720	129,415	129,213	129,996
•YoY (%)	-6.2	-0.9	-0.2	6.6	-0.4	7.1	1.9	1.2	0.5	2.1	2.4	2.6	0.5	0.8	0.4	0.4
(1) Shinkansen	3,687	5,312	4,838	4,586	18,423	4,799	5,523	5,072	4,686	19,964	20,060	20,080	20,374	20,450	20,646	20,778
•YoY (%)	-15.7	7.4	3.8	25.0	4.4	30.2	4.0	4.8	2.2	8.4	8.9	9.0	1.6	1.8	1.3	1.6
(2) Conventional lines (Kanto area network)	25,143	25,696	25,534	24,594	100,967	26,008	26,084	25,677	24,646	102,026	102,215	102,415	102,586	103,095	102,822	103,368
•YoY (%)	-3.8	-1.9	-0.5	4.0	-0.7	3.4	1.5	0.6	0.2	1.0	1.2	1.4	0.4	0.7	0.2	0.3
Commuter	17,596	17,264	17,091	16,430	68,381	17,729	17,373	17,106	16,407	68,615	68,615	68,615	68,684	68,889	68,615	68,752
•YoY (%)	-1.4	-1.3	-0.7	1.1	-0.6	0.8	0.6	0.1	-0.1	0.3	0.3	0.3	0.1	0.4	-0.1	-0.2
Others	7,547	8,432	8,443	8,164	32,586	8,279	8,711	8,571	8,239	33,411	33,600	33,800	33,902	34,206	34,208	34,616
•YoY (%)	-8.9	-3.2	-0.3	10.5	-0.8	9.7	3.3	1.5	0.9	2.5	3.1	3.7	0.9	1.2	0.9	1.2
(3) Conventional lines (others)	1,340	1,572	1,448	1,311	5,671	1,493	1,594	1,459	1,319	5,722	5,765	5,865	5,760	5,870	5,745	5,850
•YoY (%)	-19.1	-10.1	-6.7	1.4	-9.3	11.4	1.4	0.8	0.6	0.9	1.7	3.4	-0.1	0.1	-0.3	-0.3
Commuter	818	815	787	693	3,113	856	816	789	699	3,161	3,165	3,160	3,160	3,170	3,155	3,160
•YoY (%)	-10.3	-5.9	-5.0	0.5	-5.5	4.6	0.1	0.3	0.9	1.5	1.7	1.5	-0.2	0.3	-0.2	-0.3
Others	522	757	661	618	2,558	637	778	670	620	2,561	2,600	2,705	2,600	2,700	2,590	2,690
•YoY (%)	-29.8	-14.3	-8.7	2.5	-13.4	22.0	2.8	1.4	0.3	0.1	1.6	5.7	0.0	-0.2	-0.4	-0.4
Yield (¥mn passenger-km)	11.8	12.9	13.0	13.2	12.8	12.7	13.2	13.1	13.2	13.0	13.1	13.1	13.1	13.1	13.2	13.2
Shinkansen	22.1	23.6	24.3	25.1	23.9	24.1	24.2	24.5	25.0	24.4	24.4	24.4	24.5	24.5	24.8	24.8
Kanto area network	10.4	10.8	10.9	11.0	10.8	10.7	10.9	10.9	11.0	10.9	10.9	10.9	10.9	10.9	10.9	11.0
•Commuter	6.3	6.4	6.5	6.6	6.5	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
•Other	19.8	19.7	19.8	20.0	19.8	19.9	19.7	19.8	20.0	19.8	19.8	19.8	19.8	19.8	19.8	19.8
Others	10.9	12.3	12.2	12.9	12.1	11.7	12.5	12.3	12.6	12.1	12.1	12.3	12.1	12.2	12.1	12.2
•Commuter	5.5	5.9	6.0	6.3	5.9	5.6	5.9	6.1	6.1	5.9	5.9	5.9	5.9	5.9	5.9	5.9
•Other	19.3	19.3	19.7	20.2	19.6	19.8	19.4	19.7	20.0	19.7	19.7	19.7	19.7	19.7	19.7	19.7
(b) Other revenues	50.1	55.7	56.1	60.3	222.0	54.3	56.9	56.4	61.4	0.0	229.0	229.0	232.0	232.0	235.0	235.0
Total operating costs	342.0	374.4	365.7	442.2	1,524.3	354.6	383.7	388.1	447.1	1,572.0	1,569.0	1,573.5	1,574.9	1,582.2	1,583.1	1,590.5
Labor costs	116.1	116.8	110.4	124.6	467.9	120.8	119.8	115.3	123.1	475.0	475.0	479.0	475.4	483.7	473.6	481.5
Non-personnel costs	117.2	143.8	142.1	202.1	605.2	127.4	151.9	161.6	203.1	645.0	642.0	644.0	641.0	642.0	641.0	642.0
Energy costs	10.7	14.3	15.8	19.8	60.6	13.6	17.5	18.0	17.9	67.0	67.0	67.0	66.0	67.0	66.0	67.0
Maintenance costs	33.8	51.1	46.5	77.9	209.3	40.5	56.4	61.7	76.4	235.0	233.0	235.0	233.0	235.0	233.0	235.0
Miscellaneous costs	72.3	78.7	79.8	104.4	335.2	73.3	77.9	81.9	108.9	343.0	342.0	342.0	342.0	340.0	342.0	340.0
Rental payments	20.6	20.5	21.1	21.2	83.4	20.5	20.7	21.0	20.8	83.0	83.0	83.0	81.5	81.5	80.0	80.0
Taxes	19.5	23.8	20.4	18.5	82.2	19.9	23.8	20.4	20.9	85.0	85.0	85.0	85.0	85.0	85.0	85.0
Depreciation	68.3	69.7	71.6	76.0	285.6	65.8	67.5	69.9	79.3	284.0	284.0	282.5	292.0	290.0	303.5	302.0
Operating profit	65.0	102.7	104.6	20.6	292.9	111.0	110.7	91.5	19.9	321.0	331.1	333.1	343.7	347.7	356.4	363.4
YoY (%)	-35.5	1.0	17.3	NM	4.2	70.8	7.8	-12.5	-3.5	9.6	13.0	13.7	3.8	4.4	3.7	4.5

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

Source: Company data, Citi Research.

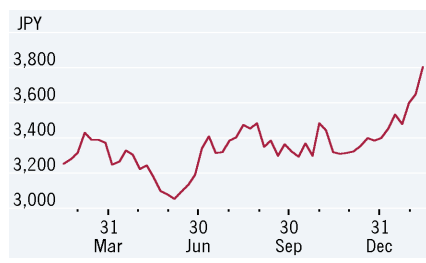
Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (13 Feb 13)	¥3,805
Target price	¥4,300
from ¥4,000	
Expected share price return	13.0%
Expected dividend yield	2.9%
Expected total return	15.9%
Market Cap	¥736,806M
	US\$7,890M

Price Performance

(RIC: 9021.T, BB: 9021 JP)



West Japan Railway (9021) Shares lagging

- **Investment opinion** — We trim our forecasts for JR West but raise our target price to ¥4,300 from ¥4,000 on a change in valuation from 13x our FY3/13 EPS forecast to 12x–13x our FY3/14 estimate. Our fair-value PER is 20% below our target PER for JR East, as we think JR West lags in terms of longer-term growth potential and unrealized gains on real estate and is unlikely to further strengthen shareholder returns for now. We think any further rise in valuations will depend on seeing positive developments on longer-term growth potential and shareholder returns in the next medium-term business plan. We nonetheless maintain a Buy rating on JR West, as we think valuations on FY3/15 estimates are still lagging.
- **FY3/13 forecasts** — We lower our FY3/13 OP forecast to ¥125.0bn from ¥126.0bn. This reflects a ¥2.1bn reduction in projected shinkansen revenues and a ¥1.1bn increase in conventional-line revenues based on recent trends.
- **FY3/14 forecasts** — We maintain our FY3/15 OP forecast of ¥132.0bn. We expect growth of 0.8% YoY in shinkansen revenues and 1.0% in non-commuter revenues in the Kinki region. We expect shinkansen revenues to benefit from an improving domestic economy and firm tourism demand, but with this moderated by increased capacity for air travel between Kansai and Kyushu. For conventional lines, we expect a full-year impact from the newly renovated Hankyu Department Store and new commercial facilities at stations as well as a boost from the new Grand Front Osaka development.
- **Next medium-term business plan** — We think JR West's medium-term profits will hinge on its ability to (1) enhance the profitability of the Sanyo Shinkansen by maximizing the impact of direct links with the Kyushu Shinkansen and cultivating demand among seniors and inbound travelers, and (2) boosting profits from Osaka Station City. We will also be looking for measures that take into account the long-term management environment and that optimize local lines or are otherwise tailored to the situation in individual regions. We meanwhile see little possibility of shareholder returns being strengthened any further for now, as the company faces outlays for earthquake countermeasures, its ATC system, and railcars for the Hokuriku Shinkansen. We therefore expect the next medium-term business plan to be slightly disappointing but hope it will offer something that boost JR West's investment appeal.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/11A	1,213,506	2.0	95,988	25.4	7.9	68,959	43.3	34,983	40.7	181	21.1
3/12A	1,287,679	6.1	109,799	14.4	8.5	82,458	19.6	29,490	-15.7	152	25.0
3/13CE	1,289,000	0.1	121,000	10.2	9.4	96,000	16.4	56,000	89.9	289	13.2
3/13E	1,311,900	1.9	126,000	14.8	9.6	101,000	22.5	60,000	103.5	310	12.3
3/13RE	1,310,800	1.8	125,000	13.8	9.5	101,000	22.5	60,000	103.5	310	12.3
3/14E	1,329,000	1.3	132,000	4.8	9.9	109,200	8.1	67,700	12.8	350	10.9
3/14RE	1,329,500	1.4	132,000	5.6	9.9	110,200	9.1	68,300	13.8	353	10.8
3/15E	1,338,500	0.7	136,000	3.0	10.2	115,000	5.3	71,300	5.3	368	10.3
3/15RE	1,341,900	0.9	137,400	4.1	10.2	117,400	6.5	72,800	6.6	376	10.1

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

9021.T: Fiscal year end 31-Mar						Price: ¥3,805; TP: ¥4,300; Market Cap: ¥736,806m; Recomm: Buy					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	1,213,506	1,287,679	1,310,800	1,329,500	1,341,900	PE (x)	21.1	25.0	12.3	10.8	10.1
Cost of sales	-950,421	-999,001	-1,003,800	-1,014,500	-1,021,500	PB (x)	1.1	1.0	1.0	0.9	0.9
Gross profit	263,085	288,678	307,000	315,000	320,400	EV/EBITDA (x)	7.6	6.8	6.6	6.3	6.2
Gross Margin (%)	21.7	22.4	23.4	23.7	23.9	FCF yield (%)	-7.3	-2.2	11.8	6.2	6.7
EBITDA (Adj)	246,874	279,129	286,500	290,700	294,600	Dividend yield (%)	2.1	2.4	2.9	3.2	3.4
EBITDA Margin (Adj) (%)	20.3	21.7	21.9	21.9	22.0	Payout ratio (%)	44	59	36	34	35
Depreciation	-150,886	-169,330	-161,500	-158,700	-157,200	ROE (%)	5.2	4.2	8.3	8.9	9.0
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	95,988	109,799	125,000	132,000	137,400	EBITDA	246,874	279,129	286,500	290,700	294,600
EBIT Margin (Adj) (%)	7.9	8.5	9.5	9.9	10.2	Working capital	18,793	-23,463	-1,341	0	0
Net interest	33,309	32,494	30,275	28,040	26,180	Other	-42,446	-49,438	-41,000	-64,700	-65,600
Non-op/Except	-60,338	-59,835	-54,275	-49,840	-46,180	Operating cashflow	223,221	206,228	244,159	226,000	229,000
Recurring profit	68,959	82,458	101,000	110,200	117,400	Capex	-277,342	-222,806	-157,000	-180,000	-180,000
Tax	-26,364	-52,910	-41,000	-41,900	-44,600	Net acq/disposals	659	2,363	0	0	0
Extraord./Min.Int./Pref.div.	-7,612	-58	0	0	0	Other	30,390	21,290	0	0	0
Reported net profit	34,983	29,490	60,000	68,300	72,800	Investing cashflow	-246,293	-199,153	-157,000	-180,000	-180,000
Net Margin (%)	2.9	2.3	4.6	5.1	5.4	Dividends paid	-14,517	-15,487	-21,301	-23,237	-25,173
Core NPAT	34,983	29,490	60,000	68,300	72,800	Financing cashflow	51,445	-36,840	-71,753	-56,701	-53,891
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	28,373	-29,765	15,406	-10,701	-4,891
Reported EPS (¥)	181	152	310	353	376	Free cashflow to s/holders	-54,121	-16,578	87,159	46,000	49,000
Core EPS (¥)	181	152	310	353	376						
EPS* (¥)	181	152	310	353	376						
DPS (¥)	80	90	110	120	130						
CFPS (¥)	1,153	1,065	1,261	1,167	1,183						
FCFPS (¥)	-279	-86	450	238	253						
BVPS (¥)	3,557	3,632	3,832	4,065	4,311						
Wtd avg ord shares (m)	194	194	194	194	194						
Wtd avg diluted shares (m)	194	194	194	194	194						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	2.0	6.1	1.8	1.4	0.9						
EBIT (Adj) (%)	25.4	14.4	13.8	5.6	4.1						
Core NPAT (%)	40.7	-15.7	103.5	13.8	6.6						
Core EPS (%)	40.7	-15.7	103.5	13.8	6.6						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	79,742	50,619	66,025	55,324	50,433						
Accounts receivables	73,952	15,504	16,000	16,000	16,000						
Inventory	28,043	33,360	34,000	34,000	34,000						
Net fixed & other tangibles	2,150,628	2,159,685	2,130,184	2,151,484	2,174,284						
Goodwill & intangibles	25,798	30,053	30,053	30,053	30,053						
Financial & other assets	314,259	353,771	354,771	355,771	356,771						
Total assets	2,672,423	2,642,992	2,631,034	2,642,633	2,661,541						
Accounts payable	51,207	46,205	46,000	46,000	46,000						
Short-term debt	101,380	170,452	98,464	103,718	91,453						
Long-term debt	1,018,533	925,780	947,316	908,598	892,145						
Provisions & other liab	780,053	767,010	767,010	767,010	767,010						
Total liabilities	1,951,173	1,909,447	1,858,790	1,825,326	1,796,608						
Shareholders' equity	688,807	703,384	742,083	787,146	834,773						
Minority interests	32,443	30,161	30,161	30,161	30,161						
Total equity	721,250	733,545	772,244	817,307	864,934						
Net debt	1,040,171	1,045,613	979,755	956,992	933,165						
Net debt to equity (%)	144.2	142.5	126.9	117.1	107.9						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

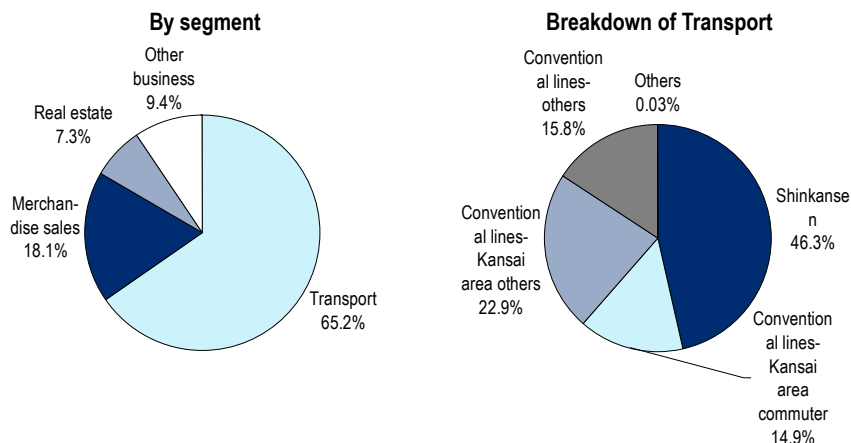


JR West (9021) Investment Dashboard

Reasons to Buy

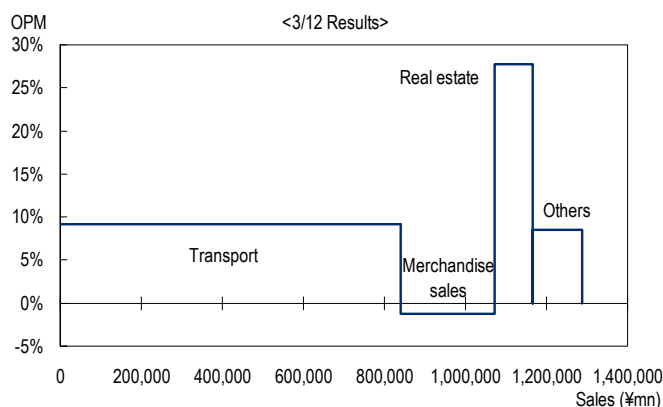
- We look for shinkansen revenue to rise as the domestic economy recovers. Profit growth should be steady but unspectacular
- The shares have lagged significantly over the past several months, and we see a re-rating as possible
- Better earnings look possible from the Sanyo shinkansen and Osaka Station City

Sales breakdown (FY3/12)



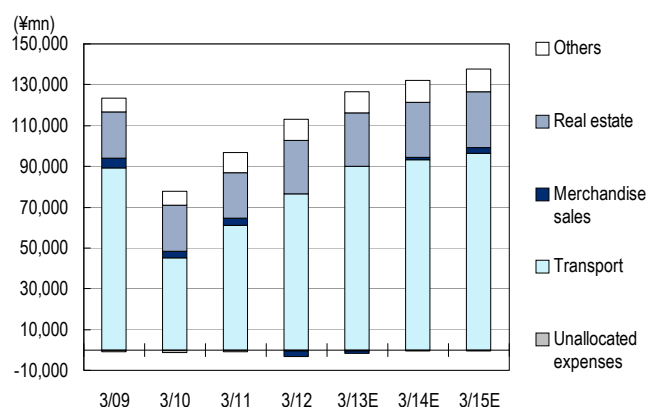
Source: Company data.

Business portfolio



Source: Company data.

OP by segment

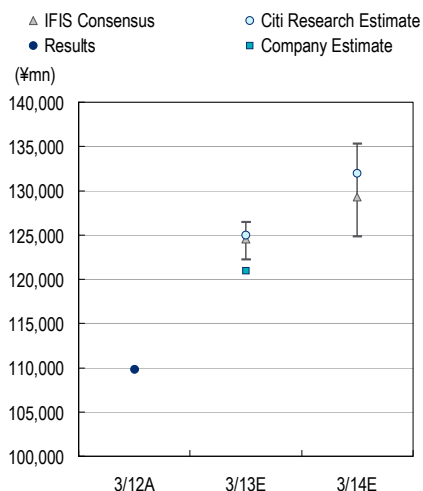


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

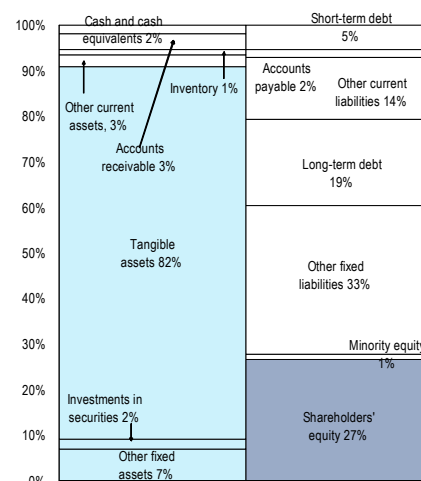
- The impact of through trains on the Sanyo and Kyushu shinkansen fading more quickly than we envisage
- Consumer sentiment deteriorating and shinkansen demand slumping by more than we expect
- A larger-than-expected impact from LCCs

OP forecast comparison



Source: Company data, IFIS (February 13), Citi Research.

Balance sheet (end-FY3/12)



Source: Company data.

Figure 4. JR West: Consolidated sales and OP by segment

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue	300.3	327.8	332.1	327.5	1,287.7	310.5	328.9	331.6	339.8	1,289.0	1,311.9	1,310.8	1,329.0	1,329.5	1,338.5	1,341.9
YoY (%)	4.0%	6.8%	7.7%	5.8%	6.1%	3.4%	0.3%	-0.2%	3.8%	0.1%	1.9%	1.8%	1.3%	1.4%	0.7%	0.9%
Transport	198.2	216.5	217.2	207.2	839.1	207.0	217.9	215.8	209.6	840.4	851.4	850.3	855.0	855.5	855.5	858.9
Merchandise sales	54.9	60.1	60.5	58.0	233.5	56.1	59.1	61.2	65.6	235.8	242.0	242.0	249.0	249.0	256.0	256.0
Real estate	19.6	24.2	23.4	26.4	93.6	20.5	23.2	21.9	25.9	89.5	91.5	91.5	95.0	95.0	95.0	95.0
Others	27.6	27.1	31.0	35.8	121.5	26.7	28.7	32.7	38.9	123.3	127.0	127.0	130.0	130.0	132.0	132.0
Operating profit	23.4	36.9	39.9	9.6	109.8	35.1	36.6	44.0	9.2	121.0	126.0	125.0	132.0	132.0	136.0	137.4
YoY (%)	-25.5%	10.9%	6.6%	NM	14.4%	50.0%	-0.6%	10.2%	-3.7%	10.2%	14.8%	13.8%	4.8%	5.6%	3.0%	4.1%
Transport	21.6	27.9	27.6	-0.4	76.7	28.0	27.0	33.1	1.9	86.5	91.0	90.0	93.1	93.1	95.2	96.6
Merchandise sales	-1.7	-0.2	0.3	-1.4	-3.0	-0.2	-0.4	0.2	-0.9	-1.6	-1.3	-1.3	1.2	1.2	2.5	2.5
Real estate	4.2	7.4	7.8	6.6	26.0	6.6	7.5	6.9	5.2	26.2	26.2	26.2	27.0	27.0	27.5	27.5
Others	-0.4	0.8	4.1	5.9	10.4	0.1	2.3	3.5	4.5	10.2	10.4	10.4	11.0	11.0	11.1	11.1
OP-intercompany elimination	-0.3	1.1	0.1	-1.2	-0.3	0.4	0.5	0.3	-1.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

Source: Company data, Citi Research.

Figure 5. JR West: Parent earnings and passenger data

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue (a) + (b)	204.1	222.1	222.8	213.1	862.1	213.1	223.6	221.7	209.4	863.5	868.9	867.8	871.5	872.0	871.5	874.9
•YoY (%)	1.6%	4.1%	5.4%	5.0%	4.0%	4.4%	0.7%	-0.5%	-1.7%	0.2%	0.8%	0.7%	0.3%	0.5%	0.0%	0.3%
(a)Transport revenue	180.1	197.0	196.8	184.8	758.7	187.7	197.3	198.0	186.3	765.0	770.4	769.3	773.0	773.5	773.0	776.4
Railway passenger revenue (1)+(2)+(3)	179.8	197.2	196.5	185.0	758.5	187.5	197.3	198.0	186.5	764.9	770.4	769.3	773.0	773.5	773.0	776.4
•YoY (%)	1.1%	5.3%	5.2%	5.0%	4.2%	4.3%	0.1%	0.8%	0.8%	0.8%	1.6%	1.4%	0.3%	0.5%	0.0%	0.4%
(1) Shinkansen	81.2	93.1	93.0	84.1	351.4	86.4	92.4	93.5	84.4	354.0	358.8	356.7	359.9	359.5	360.5	362.4
•YoY (%)	4.9%	11.4%	9.8%	7.5%	8.5%	6.4%	-0.8%	0.5%	0.3%	0.7%	2.1%	1.5%	0.3%	0.8%	0.2%	0.8%
(2) Keihanshin area conventional lines	70.9	72.5	73.0	70.8	287.2	72.6	73.2	73.8	71.6	290.3	290.5	291.2	292.3	293.0	292.3	293.5
•YoY (%)	-1.1%	0.8%	1.5%	2.7%	1.0%	2.4%	1.0%	1.1%	1.1%	1.1%	1.4%	1.4%	0.6%	0.6%	0.0%	0.2%
Commuter	29.0	28.6	28.5	27.3	113.4	29.0	28.5	28.6	27.4		113.5	113.5	113.5	113.5	113.5	113.5
•YoY (%)	0.0%	0.4%	0.0%	-0.1%	0.1%	0.0%	-0.3%	0.0%	0.2%		0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Others	41.9	43.9	44.5	43.5	173.8	43.6	44.7	45.2	44.2		177.0	177.7	178.8	179.5	178.8	180.0
•YoY (%)	-1.6%	0.9%	2.8%	4.3%	1.6%	4.1%	1.8%	1.6%	1.6%		1.8%	2.2%	1.0%	1.0%	0.0%	0.3%
(3) Other conventional lines	27.7	31.7	30.5	30.0	119.9	28.5	31.7	30.7	30.6	120.6	121.2	121.5	120.7	121.0	120.2	120.5
•YoY (%)	-3.1%	0.0%	1.0%	2.9%	0.2%	2.9%	0.0%	0.3%	1.9%	0.6%	1.1%	1.3%	-0.4%	-0.4%	-0.4%	-0.4%
Commuter	6.9	6.9	6.8	6.4	27.0	6.9	6.9	6.8	6.3		26.9	26.9	26.8	26.8	26.7	26.7
•YoY (%)	-1.4%	1.5%	-1.4%	0.4%	-0.3%	0.0%	0.0%	-0.2%	-1.0%		-0.2%	-0.2%	-0.4%	-0.4%	-0.4%	-0.4%
Others	20.8	24.7	23.7	23.7	92.9	21.6	24.8	23.9	24.2		94.2	94.5	93.9	94.2	93.5	93.8
•YoY (%)	-3.7%	-0.4%	1.3%	4.0%	0.3%	3.8%	0.4%	0.5%	2.3%		1.5%	1.8%	-0.4%	-0.4%	-0.4%	-0.4%
Traffic volume (mn passenger-km) (1)+(2)+(3)	13,169	14,027	13,975	12,945	54,116	13,693	14,046	14,042	12,959		54,785	54,740	54,959	54,946	55,022	55,077
•YoY (%)	0.6%	3.7%	3.8%	3.3%	2.9%	4.0%	0.1%	0.5%	0.1%		1.2%	1.2%	0.3%	0.4%	0.1%	0.2%
(1) Shinkansen	3,855	4,504	4,540	3,978	16,877	4,139	4,456	4,555	3,980		17,230	17,130	17,330	17,262	17,430	17,400
•YoY (%)	5.3%	11.7%	9.5%	7.4%	8.6%	7.4%	-1.1%	0.3%	0.1%		2.1%	1.5%	0.6%	0.8%	0.6%	0.8%
(2) Keihanshin area conventional lines	7,137	7,145	7,142	6,794	28,218	7,303	7,196	7,182	6,809		28,450	28,490	28,560	28,600	28,560	28,630
•YoY (%)	-0.8%	0.4%	1.1%	1.8%	0.6%	2.3%	0.7%	0.6%	0.2%		0.8%	1.0%	0.4%	0.4%	0.0%	0.1%
Commuter	4,838	4,640	4,605	4,357	18,440	4,842	4,644	4,604	4,360		18,450	18,450	18,460	18,460	18,460	18,460
•YoY (%)	0.2%	0.2%	0.4%	1.3%	0.5%	0.1%	0.1%	0.0%	0.1%		0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Others	2,299	2,505	2,537	2,437	9,778	2,461	2,552	2,578	2,449		10,000	10,040	10,100	10,140	10,100	10,170
•YoY (%)	-2.8%	0.9%	2.5%	2.7%	0.9%	7.0%	1.9%	1.6%	0.5%		2.3%	2.7%	1.0%	1.0%	0.0%	0.3%
(2) Other conventional lines	2,177	2,380	2,293	2,170	9,020	2,251	2,394	2,305	2,170		9,105	9,120	9,069	9,084	9,032	9,047
•YoY (%)	-2.4%	0.0%	1.3%	1.1%	0.0%	3.4%	0.6%	0.5%	0.0%		0.9%	1.1%	-0.4%	-0.4%	-0.4%	-0.4%
Commuter	1,176	1,100	1,088	984	4,348	1,175	1,102	1,084	984		4,345	4,345	4,328	4,328	4,310	4,310
•YoY (%)	-0.4%	-0.3%	0.4%	1.2%	0.2%	-0.1%	0.2%	-0.4%	0.0%		-0.1%	-0.1%	-0.4%	-0.4%	-0.4%	-0.4%
Others	1,001	1,277	1,205	1,189	4,672	1,076	1,292	1,221	1,186		4,760	4,775	4,741	4,756	4,722	4,737
•YoY (%)	-4.6%	-0.1%	2.2%	1.3%	-0.2%	7.5%	1.2%	1.3%	-0.3%		1.9%	2.2%	-0.4%	-0.4%	-0.4%	-0.4%
Yield (¥mn passenger-km)	13.7	14.1	14.1	14.3	14.0	13.7	14.0	14.1	14.4		14.1	14.1	14.1	14.1	14.0	14.1
Shinkansen	21.1	20.7	20.5	21.1	20.8	20.9	20.7	20.5	21.2		20.8	20.8	20.8	20.8	20.7	20.8
Keihanshin area	9.9	10.1	10.2	10.4	10.2	9.9	10.2	10.3	10.5		10.2	10.2	10.2	10.2	10.2	10.3
Commuter	6.0	6.2	6.2	6.3	6.1	6.0	6.1	6.2	6.3		6.1	6.1	6.1	6.1	6.1	6.1
Others	18.2	17.5	17.5	17.6	17.8	17.7	17.5	17.5	17.6		17.7	17.7	17.7	17.7	17.7	17.7
Other area	12.7	13.3	13.3	13.6	13.3	12.7	13.2	13.3	13.6		13.3	13.3	13.3	13.3	13.3	13.3
Commuter	5.9	6.2	6.3	6.6	6.2	5.9	6.3	6.3	6.6		6.2	6.2	6.2	6.2	6.2	6.2
Others	20.8	19.4	19.7	19.4	19.9	20.1	19.2	19.6	19.4		19.8	19.8	19.8	19.8	19.8	19.8
(b) Other revenues	24.0	25.1	26.0	28.3	103.4	25.4	26.3	23.7	23.1	98.5	98.5	98.5	98.5	98.5	98.5	98.5
Total operating costs	178.8	191.3	192.2	210.5	772.8	181.8	193.7	185.4	204.6	764.5	765.6	765.5	766.0	766.5	764.0	766.0
Labor costs	59.2	58.7	60.6	59.4	237.9	58.4	58.5	57.8	58.3	233.0	233.0	233.0	232.5	232.5	231.5	231.5
Non-personnel costs	71.3	82.4	83.6	102.2	339.5	76.4	86.5	79.8	99.8	341.5	342.6	342.5	346.0	346.5	347.0	348.0
Energy costs	8.3	9.6	9.0	9.3	36.2	8.7	10.0	9.2	10.1	38.0	38.0	38.0	40.0	41.0	41.0	42.0
Maintenance costs	23.4	32.0	32.1	45.8	133.3	25.9	34.2	31.3	43.1	134.5	134.5	134.5	135.0	135.0	135.0	135.0
Miscellaneous costs	39.5	40.9	42.3	47.2	169.9	41.6	42.4	39.3	46.7	169.0	170.1	170.0	171.0	170.5	171.0	171.0
Rental payments	6.3	6.3	5.1	5.9	23.6	5.9	6.0	5.8	5.8	23.5	23.5	23.5	23.5	23.5	23.5	23.5
Taxes	8.7	9.2	7.2	5.8	30.9	8.4	9.5	8.0	6.1	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Depreciation	33.2	34.7	35.6	37.2	140.7	32.5	33.3	33.8	34.9	134.5	134.5	134.5	132.0	132.0	130.0	131.0
Operating profit	25.3	30.7	30.6	2.6	89.2	31.3	29.9	36.3	4.8	99.0	103.3	102.3	105.5	105.5	107.5	108.9
YoY(%)	-12.2%	9.3%	-2.9%	NM	17.7%	23.7%	-2.6%	18.6%	84.6%	11.0%	15.8%	14.7%	2.1%	3.1%	1.9%	3.2%

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

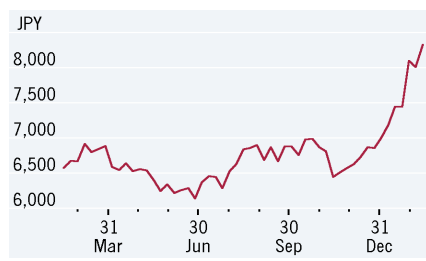
Source: Company data, Citi Research.

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (13 Feb 13)	¥8,330
Target price	¥9,200
from ¥7,700	
Expected share price return	10.4%
Expected dividend yield	1.2%
Expected total return	11.6%
Market Cap	¥1,639,339M
	US\$17,554M

Price Performance
(RIC: 9022.T, BB: 9022 JP)



Central Japan Railway (9022) Profit improvement already being priced in

- **Investment opinion** — We revise our forecasts for JR Central to reflect the revised schedule for shinkansen renovations. Based on the assumptions outlined below, we expect OP to rise temporarily in FY3/14 and then decline sharply in FY3/15. However, we expect costs to remain mostly steady in FY3/16 and beyond and regard our FY3/15 EPS forecast as a broadly sustainable profit level for the company. For this reason we now use PER to set our target price of ¥9,200, equivalent to a PER of 10x our FY3/15E and an EV/EBITDA of 6.2x our FY3/14E. We expect shinkansen revenues to rise from FY3/14 but believe the shares are already fairly priced. We maintain our Neutral rating.
- **FY3/13 forecasts** — We raise our FY3/13 OP forecast to ¥421.0bn from ¥418.0bn on a slight increase in our outlook for shinkansen revenues. Our OP forecast is ¥14bn above guidance, as we are more bullish on shinkansen revenues.
- **FY3/14 forecasts** — We raise our FY3/14 OP forecast to ¥433.0bn from ¥396.5bn. Our outlook for transport revenues is ¥10.8bn higher than previously, reflecting a revision to shinkansen revenue to +1.5% YoY from +0.7% premised on an improvement in the domestic economy that we think bodes well for demand. In addition, we expect the start of shinkansen renovations to lower reserve-related costs by ¥68.3bn while boosting repair costs and depreciation by just over ¥36.0bn. Note that our forecasts factor in increased depreciation on the Yamanashi maglev test track premised on it starting operation in November.
- **Outlook for FY3/15 and beyond** — We raise our FY3/15 OP forecast to ¥386.2bn from ¥348.5bn. This implies a ¥46.8bn YoY decline, with a projected ¥62.0bn rise in costs (full-year depreciation from Yamanashi test track, higher repair costs/depreciation accompanying shinkansen renovations) cancelling out a ¥13.8bn increase in transport revenues. We currently expect costs to decline only slightly in FY3/16, with higher outlays for shinkansen renovations offset by lower depreciation on the Yamanashi test track.
- **Shinkansen renovations being brought forward** — JR Central now plans to spend ¥730.8bn on shinkansen renovations over the 10 years from FY3/14 but has not disclosed how outlays will be timed or apportioned between repairs and capex. Our forecasts assume a 70:30 split between repairs and capex. We expect outlays of ¥50bn in FY3/14 and ¥65bn in FY3/15, below the 10-year average, with spending ramping up in earnest from FY3/16. These assumptions are entirely provisional, and we will reflect any new details in our forecasts as they become available.
- **Implications for cash flow** — Based on the above assumptions, we expect the present value of cash flow over the next 15 years to get a boost of ¥120bn–¥130bn versus the previous company plan. While construction costs are being reduced by nearly ¥370bn, they are also being brought forward by five years, thereby moderating tax savings and in turn the impact on cash flow's present value. We think this implies an 8%–9% boost for the share price versus its pre-Q3 results level and accordingly think it is already broadly priced in.

Consol.	Sales		OP			RP		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	X
3/11A	1,503,083	1.1	349,347	19.0	23.2	228,592	38.4	133,807	45.8	680	12.3
3/12A	1,508,328	0.3	372,521	6.6	24.7	263,805	15.4	132,781	-0.8	675	12.3
3/13CE	1,580,000	4.8	407,000	9.3	25.8	306,000	16.0	187,000	40.8	950	8.8
3/13E	1,576,700	4.5	418,000	12.2	26.5	317,000	20.2	194,000	46.1	986	8.5
3/13RE	1,580,000	4.8	421,000	13.0	26.6	319,900	21.3	194,900	46.8	990	8.4
3/14E	1,591,200	0.9	396,500	-5.1	24.9	300,700	-5.1	186,700	-3.8	949	8.8
3/14RE	1,602,000	1.4	433,000	2.9	27.0	335,300	4.8	208,300	6.9	1,058	7.9
3/15E	1,604,900	0.9	348,500	-12.1	21.7	260,200	-13.5	161,200	-13.7	819	10.2
3/15RE	1,618,900	1.1	386,200	-10.8	23.9	293,300	-12.5	182,300	-12.5	926	9.0

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

9022.T: Fiscal year end 31-Mar						Price: ¥8,330; TP: ¥9,200; Market Cap: ¥1,639,339m; Recomm: Neutral					
Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	1,503,083	1,508,328	1,580,000	1,602,000	1,618,900	PE (x)	12.3	12.3	8.4	7.9	9.0
Cost of sales	-993,605	-974,030	-997,000	-1,007,000	-1,070,700	PB (x)	1.4	1.2	1.1	1.0	0.9
Gross profit	509,478	534,298	583,000	595,000	548,200	EV/EBITDA (x)	7.6	7.1	6.6	6.0	5.7
Gross Margin (%)	33.9	35.4	36.9	37.1	33.9	FCF yield (%)	15.1	9.9	7.8	7.8	12.7
EBITDA (Adj)	607,946	629,584	663,000	711,000	714,200	Dividend yield (%)	1.1	1.1	1.2	1.2	1.2
EBITDA Margin (Adj) (%)	40.4	41.7	42.0	44.4	44.1	Payout ratio (%)	13	14	10	9	11
Depreciation	-258,599	-257,063	-242,000	-278,000	-328,000	ROE (%)	11.6	10.5	13.8	13.1	10.3
Amortisation	0	0	0	0	0	Cashflow (¥m)	2011	2012	2013E	2014E	2015E
EBIT (Adj)	349,347	372,521	421,000	433,000	386,200	EBITDA	607,946	629,584	663,000	711,000	714,200
EBIT Margin (Adj) (%)	23.2	24.7	26.6	27.0	23.9	Working capital	13,912	-21,319	-1,947	0	1,000
Net interest	-106,339	-97,200	-89,394	-85,979	-81,215	Other	-99,924	-160,591	-186,000	-258,200	-237,400
Non-op/Except	-14,416	-11,516	-11,706	-11,721	-11,685	Operating cashflow	521,934	447,674	475,053	452,800	477,800
Recurring profit	228,592	263,805	319,900	335,300	293,300	Capex	-274,983	-285,419	-348,000	-325,000	-270,000
Tax	-88,722	-127,792	-123,000	-127,000	-111,000	Net acq/disposals	0	0	0	0	0
Extraord./Min.Int./Pref.div.	-6,063	-3,232	-2,000	0	0	Other	-45,232	15,465	0	0	0
Reported net profit	133,807	132,781	194,900	208,300	182,300	Investing cashflow	-320,215	-269,954	-348,000	-325,000	-270,000
Net Margin (%)	8.9	8.8	12.3	13.0	11.3	Dividends paid	-17,750	-17,730	-19,680	-19,680	-19,680
Core NPAT	133,807	132,781	194,900	208,300	182,300	Financing cashflow	-165,906	-208,549	-123,864	-127,731	-207,695
Per share data	2011	2012	2013E	2014E	2015E	Net change in cash	35,813	-30,829	3,189	69	105
Reported EPS (¥)	680	675	990	1,058	926	Free cashflow to s/holders	246,951	162,255	127,053	127,800	207,800
Core EPS (¥)	680	675	990	1,058	926						
EPS* (¥)	680	675	990	1,058	926						
DPS (¥)	90	95	100	100	100						
CFPS (¥)	2,652	2,275	2,414	2,301	2,428						
FCFPS (¥)	1,255	824	646	649	1,056						
BVPS (¥)	6,131	6,716	7,606	8,565	9,391						
Wtd avg ord shares (m)	197	197	197	197	197						
Wtd avg diluted shares (m)	197	197	197	197	197						
Growth rates	2011	2012	2013E	2014E	2015E						
Sales revenue (%)	1.1	0.3	4.8	1.4	1.1						
EBIT (Adj) (%)	19.0	6.6	13.0	2.9	-10.8						
Core NPAT (%)	45.8	-0.8	46.8	6.9	-12.5						
Core EPS (%)	46.1	-0.8	46.8	6.9	-12.5						
Balance Sheet (¥m)	2011	2012	2013E	2014E	2015E						
Cash & cash equiv.	113,468	81,151	84,340	84,409	84,514						
Accounts receivables	65,149	46,648	49,000	50,000	51,000						
Inventory	26,461	33,378	34,000	34,000	36,000						
Net fixed & other tangibles	4,614,247	4,616,697	4,717,697	4,764,697	4,706,697						
Goodwill & intangibles	19,651	22,035	22,035	22,035	22,035						
Financial & other assets	414,017	414,129	414,329	414,529	414,729						
Total assets	5,252,993	5,214,038	5,321,401	5,369,670	5,314,975						
Accounts payable	60,807	63,973	65,000	66,000	70,000						
Short-term debt	264,119	299,520	296,111	331,086	272,950						
Long-term debt	2,805,887	2,592,563	2,491,788	2,348,762	2,218,883						
Provisions & other liab	876,026	894,730	928,030	894,730	861,430						
Total liabilities	4,006,839	3,850,786	3,780,929	3,640,578	3,423,263						
Shareholders' equity	1,206,645	1,321,655	1,496,875	1,685,495	1,848,115						
Minority interests	39,509	41,597	43,597	43,597	43,597						
Total equity	1,246,154	1,363,252	1,540,472	1,729,092	1,891,712						
Net debt	2,956,538	2,810,932	2,703,559	2,595,439	2,407,319						
Net debt to equity (%)	237.3	206.2	175.5	150.1	127.3						

Note: Consolidated data. * EPS: NP/Est Shares OS.

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com

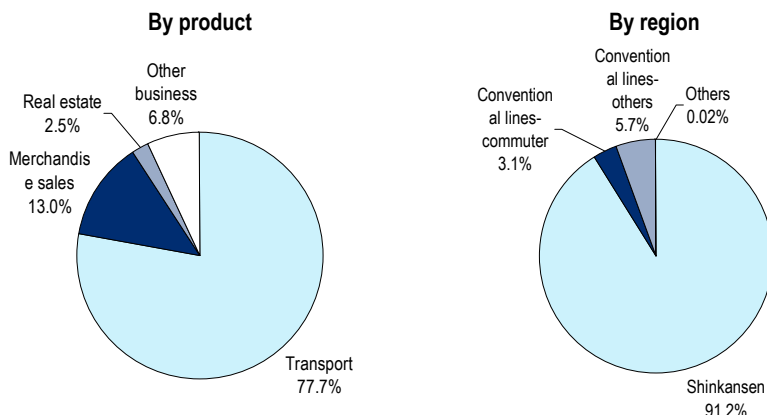


JR Central (9022) Investment Dashboard

Reasons for our Neutral rating

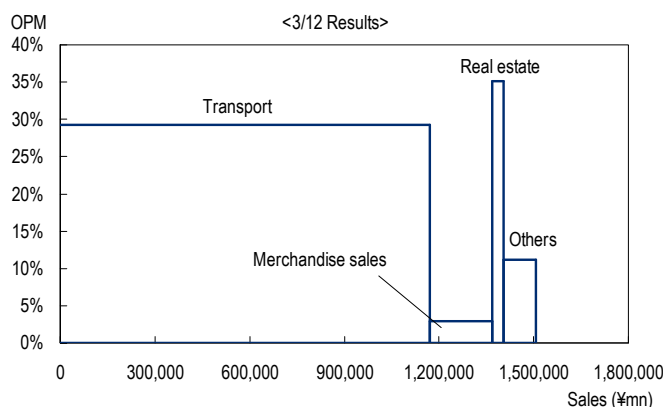
- Tourism demand is firm and we look for increased shinkansen revenue as the domestic economy picks up, but we believe this is already priced in to some extent so upside looks limited
- We think valuations will be held down by concerns about the maglev project

Sales breakdown (FY3/12)



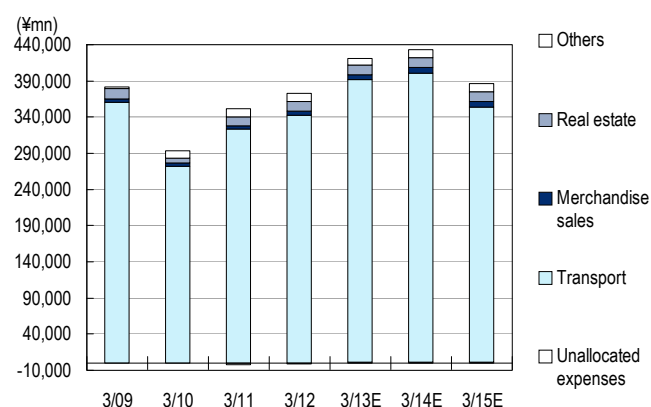
Note: Overseas sales less than 10% of total; omitted for clarity. Source: Company data.

Business portfolio



Source: Company data.

OP by segment

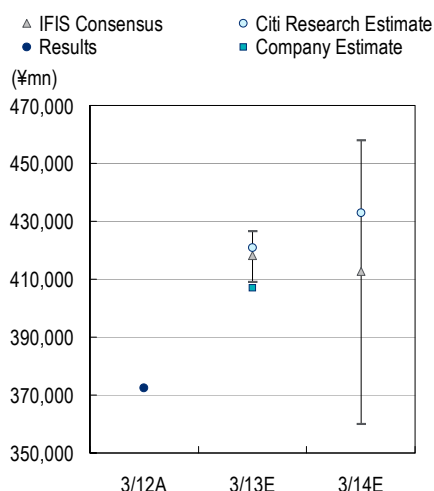


Source: Company data, Citi Research.

Alternate scenario: A more bullish case

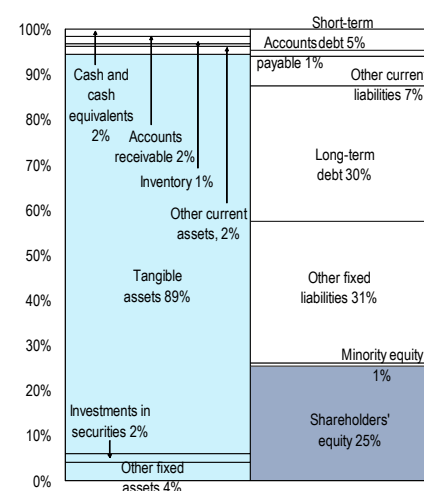
- If the macro economy turns up and corporate earnings improve, resulting in better business demand for shinkansen travel
- Should movement around the Kanto and Kansai areas increase more than expected
- Should JR Central announce construction cost controls or acceleration of the maglev project

OP forecast comparison



Source: Company data, IFIS (February 13), Citi Research.

Balance sheet (end-FY3/12)



Source: Company data.

Figure 6. JR Central: Consolidated sales and OP by segment

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue	341.1	381.3	399.5	386.5	1,508.3	380.7	409.1	409.8	380.4	1,580.0	1,576.7	1,580.0	1,591.2	1,602.0	1,604.9	1,618.9
YoY (%)	-5.9%	-1.2%	1.9%	6.5%	0.3%	11.6%	7.3%	2.6%	-1.6%	4.8%	4.5%	4.8%	0.9%	1.4%	0.9%	1.1%
Transport	266.0	304.5	316.5	295.7	1,182.7	301.0	323.8	321.5	294.9	1,227.9	1,238.9	1,241.2	1,247.2	1,258.0	1,258.4	1,272.4
Retail	48.2	49.9	51.7	55.5	205.3	51.9	51.2	51.9	55.0	207.4	209.0	210.0	212.5	212.5	214.5	214.5
Real estate	15.1	15.8	15.7	16.1	62.8	15.6	16.3	16.6	14.9	64.3	63.5	63.5	64.0	64.0	64.5	64.5
Others	43.5	51.2	54.8	76.4	225.8	38.8	56.5	57.5	77.5	241.0	230.3	230.3	232.5	232.5	232.5	232.5
Elimination	-31.7	-40.1	-39.1	-57.3	-168.3	-26.6	-38.6	-37.7	-62.0	-160.6	-165.0	-165.0	-165.0	-165.0	-165.0	-165.0
Operating profit	86.9	108.7	125.2	51.7	372.5	121.9	121.7	127.9	49.4	407.0	418.0	421.0	396.5	433.0	348.5	386.2
YoY (%)	-14.9%	11.7%	9.4%	45.7%	6.6%	40.4%	12.0%	2.2%	-4.4%	9.3%	12.2%	13.0%	-5.1%	2.9%	-12.1%	-10.8%
Transport	80.9	103.6	116.5	41.9	342.8	114.8	115.5	119.1	40.5	377.1	387.6	389.9	363.9	399.7	315.1	352.1
Retail	0.9	1.4	1.7	1.7	5.8	1.6	1.7	1.9	2.1	6.2	6.7	7.4	6.7	7.4	6.7	7.4
Real estate	3.7	3.4	3.7	2.3	13.1	4.0	3.8	4.0	1.3	13.0	13.0	13.0	13.2	13.2	13.5	13.5
Others	1.6	1.7	3.9	4.3	11.5	0.6	1.2	2.6	4.7	9.1	9.1	9.1	11.1	11.1	11.6	11.6
OP - intercompany elimination	-0.2	-1.4	-0.6	1.6	-0.6	0.9	-0.5	0.3	0.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

Source: Company data, Citi Research.

Figure 7. Central Japan Railway: Parent earnings and passenger data

(¥bn)	1Q	2Q	3Q	4Q	3/12	1Q	2Q	3Q	4QRE	3/13CE	3/13E	3/13RE	3/14E	3/14RE	3/15E	3/15RE
Total revenue (a)+(b)	266.5	305.0	316.9	296.2	1,184.6	301.5	324.3	321.9	295.0	1,230.0	1,240.4	1,242.7	1,248.7	1,259.5	1,259.9	1,273.9
• YoY (%)	-7.2%	1.2%	2.7%	7.8%	1.1%	13.1%	6.3%	1.6%	-0.4%	3.8%	4.7%	4.9%	0.7%	1.4%	0.9%	1.1%
(a) Passenger revenues	249.5	286.4	298.6	273.6	1,108.1	283.9	297.7	306.7	277.7	1,153.8	1,163.7	1,166.0	1,171.5	1,182.3	1,182.1	1,196.1
Passenger revenue (1)+(2)	249.5	286.4	298.7	273.4	1,108.0	283.9	297.7	306.7	277.6		1,163.6	1,165.9	1,171.4	1,182.2	1,182.0	1,196.0
YoY (%)	-7.5%	1.1%	2.6%	7.6%	0.9%	13.8%	3.9%	2.7%	1.5%		5.0%	5.2%	0.7%	1.4%	0.9%	1.2%
(1) Shinkansen	226.2	261.2	273.9	249.7	1,011.0	259.2	272.1	281.7	254.3		1,065.0	1,067.3	1,072.8	1,083.6	1,083.5	1,097.5
YoY (%)	-7.6%	1.4%	3.0%	8.1%	1.1%	14.6%	4.2%	2.9%	1.8%		5.3%	5.6%	0.7%	1.5%	1.0%	1.3%
Commuter	4.2	4.2	4.2	4.0	16.6	4.2	4.2	4.2	4.1		16.7	16.7	16.8	16.8	16.9	16.9
YoY (%)	0.3%	1.1%	1.0%	0.8%	0.6%	0.8%	0.0%	-0.4%	3.5%		0.8%	0.8%	0.4%	0.4%	0.4%	0.4%
Others	222.0	257.0	269.7	245.7	994.4	255.0	267.9	277.5	250.2		1048.2	1050.6	1056.0	1066.8	1066.6	1080.6
YoY (%)	-7.7%	1.4%	3.0%	8.2%	1.2%	14.9%	4.2%	2.9%	1.8%		5.4%	5.6%	0.7%	1.5%	1.0%	1.3%
(2) Conventional lines	23.1	25.2	24.8	23.8	96.9	24.5	25.6	25.0	23.5		98.6	98.6	98.6	98.6	98.5	98.5
YoY (%)	-6.2%	-2.1%	-0.9%	2.5%	-1.9%	5.9%	1.6%	1.0%	-1.1%		1.8%	1.8%	-0.1%	-0.1%	-0.1%	-0.1%
Commuter	8.7	8.6	8.6	8.1	34.0	8.7	8.6	8.6	8.0		33.9	33.9	33.8	33.8	33.7	33.7
YoY (%)	-0.3%	-0.4%	-0.3%	-0.2%	-0.5%	-0.1%	0.0%	0.0%	-1.8%		-0.4%	-0.4%	-0.2%	-0.2%	-0.2%	-0.2%
Others	14.4	16.6	16.2	15.7	62.9	15.8	17.0	16.4	15.6		64.8	64.8	64.8	64.8	64.8	64.8
YoY (%)	-9.5%	-2.9%	-1.2%	4.0%	-2.6%	9.5%	2.4%	1.5%	-0.7%		3.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Traffic volume (¥bn passenger-km) (1)+(2)	12.2	13.7	14.2	13.1	53.3	13.7	14.3	14.5	13.3		55.7	55.8	56.0	56.5	56.5	57.1
YoY (%)	-6.8%	1.2%	2.4%	7.4%	1.0%	12.3%	3.8%	2.6%	1.3%		4.6%	4.8%	0.6%	1.2%	0.8%	1.1%
(1) Shinkansen	10.0	11.5	11.9	11.0	44.3	11.4	12.0	12.3	11.2		46.7	46.8	47.0	47.5	47.5	48.1
YoY (%)	-7.6%	1.6%	3.0%	8.4%	1.3%	14.5%	4.4%	3.0%	1.7%		5.4%	5.6%	0.7%	1.5%	1.0%	1.3%
Commuter	0.4	0.4	0.3	0.3	1.4	0.4	0.4	0.3	0.3		1.4	1.4	1.4	1.4	1.4	1.4
YoY (%)	0.0%	0.3%	2.1%	1.5%	1.0%	1.3%	0.3%	-1.2%	1.2%		0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Others	9.6	11.1	11.6	10.6	42.9	11.1	11.6	11.9	10.8		45.3	45.4	45.6	46.1	46.1	46.7
YoY (%)	-7.8%	1.7%	3.0%	8.7%	1.3%	15.0%	4.5%	3.1%	1.7%		5.6%	5.8%	0.7%	1.5%	1.0%	1.3%
(2) Conventional lines	2.3	2.3	2.3	2.1	9.0	2.3	2.3	2.3	2.1		9.0	9.0	9.0	9.0	9.0	9.0
YoY (%)	-3.0%	-0.9%	-0.2%	2.2%	-0.5%	2.4%	0.7%	0.3%	-0.5%		0.8%	0.8%	-0.1%	-0.1%	-0.1%	-0.1%
Commuter	1.5	1.4	1.4	1.3	5.5	1.4	1.4	1.4	1.3		5.5	5.5	5.4	5.4	5.4	5.4
YoY (%)	0.0%	-0.1%	0.1%	1.1%	0.3%	-0.6%	-0.3%	-0.1%	-1.3%		-0.5%	-0.5%	-0.2%	-0.2%	-0.2%	-0.2%
Others	0.8	0.9	0.9	0.9	3.5	0.9	0.9	0.9	0.9		3.6	3.6	3.6	3.6	3.6	3.6
YoY (%)	-8.0%	-1.9%	-0.8%	4.0%	-1.8%	7.9%	2.2%	0.9%	0.7%		2.8%	2.8%	0.0%	0.0%	0.0%	0.0%
Yield (¥/passenger-km)	20.4	20.8	21.1	20.9	20.8	20.7	20.9	21.1	20.9		20.9	20.9	20.9	20.9	20.9	21.0
Shinkansen	22.7	22.8	23.0	22.8	22.8	22.7	22.8	23.0	22.8		22.8	22.8	22.8	22.8	22.8	22.8
Conventional lines	10.2	11.0	10.9	11.1	10.8	10.6	11.1	11.0	11.1		10.9	10.9	10.9	10.9	10.9	10.9
Commuter	6.0	6.2	6.2	6.4	6.2	6.0	6.2	6.2	6.3		6.2	6.2	6.2	6.2	6.2	6.2
Others	18.0	18.3	18.3	18.2	18.2	18.3	18.3	18.3	17.9		18.2	18.2	18.2	18.2	18.2	18.2
(b) Other revenues	17.0	18.6	18.3	22.6	76.5	17.6	26.6	15.2	17.3	76.2	76.7	76.7	77.2	77.2	77.8	77.8
Total operating costs	184.6	200.6	199.6	254.2	839.0	185.6	207.9	201.9	254.6	850.0	850.0	850.0	882.0	857.0	942.0	919.0
Labor costs	44.3	41.5	42.8	41.9	170.5	44.2	41.7	43.8	42.3	172.0	172.0	172.0	173.0	173.0	174.0	174.0
Non-personnel costs	75.8	92.5	86.8	138.9	394.0	80.3	104.2	94.9	143.6	423.0	423.0	423.0	424.0	393.0	425.0	404.0
Energy costs					34.1	8.1	9.8	8.7	10.4	37.0	37.0	37.0	40.0	40.0	40.0	41.0
Maintenance costs					178.7	29.3	50.0	43.4	73.3	196.0	196.0	196.0	163.0	163.0	195.0	173.0
Miscellaneous costs					181.1	42.9	44.4	42.7	60.0	190.0	190.0	190.0	190.0	190.0	190.0	190.0
Taxes	8.1	8.2	8.2	8.3	32.8	8.2	8.3	8.3	8.2	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Depreciation	56.2	58.5	61.7	65.0	241.4	52.8	53.6	55.0	60.6	222.0	222.0	222.0	252.0	258.0	310.0	308.0
Operating profit (parent)	81.9	104.4	117.3	42.0	345.6	115.9	116.4	120.0	40.4	380.0	390.4	392.7	366.7	402.5	317.9	354.9
YoY (%)	-17.6%	12.0%	10.9%	54.6%	6.2%	41.5%	11.5%	2.3%	-3.7%	10.0%	13.0%	13.6%	-6.1%	2.5%	-13.3%	-11.8%

Note: CE denotes company estimates, E denotes our estimates, RE denotes our revised estimates.

Source: Company data, Citi Investment Research and Analysis.

East Japan Railway

Investment strategy

We rate JR East Buy (1), with a ¥8,000 target price. We forecast that the domestic economy will improve and that tourism demand will be firm. We also anticipate increased passenger demand due to reconstruction-related corporate activities and tourism, and this is likely to be sustainable. Also, we expect such landmarks as Tokyo Sky Tree, Shibuya Hikarie, and Tokyo Station to continue to support passenger demand on conventional lines in the Kanto area. Moreover, we foresee steady profit expansion moving forward in non-transport businesses and model FY3/14 OP growth of 4.5%. Furthermore, over the medium term we expect shinkansen revenue to expand and sustainable growth in non-transport operations, as shinkansen lines are made faster and recovery in business demand.

However, with Japan's population set to decline moving forward, we see the key point as being whether it can promote energy saving and lower costs via technological innovation and deal with unprofitable lines, thereby transforming into an efficient railroad operator. As far as unprofitable lines are concerned, agreement has been reached on a provisional revival of the Kessennuma line using a bus rapid transport (BRT) system, and we will be watching how the BRT fares and other future BRT developments.

Valuation

Our ¥8,000 target price equates to an FY3/14E PER of c15x and EV/EBITDA of c8.0x. We use TOPIX as our main valuation reference for railway operators. Specifically, we adopt a fair TOPIX PER of c15x and adjust for such factors as historical discounts/premiums, ROIC-WACC and other profitability measures, growth potential, and financial position to arrive at fair multiples for each company. JR East has historically tended to trade at valuations close to TOPIX. As we expect improvement in shinkansen revenue as the domestic economy recovers, growth potential over the longer term is impressive, unrealized gains on real estate are substantial and JR East has plenty of development projects, we set our fair value PER on par with the benchmark. In addition, EV/EBITDA has ranged between 7x and 8x since the Lehman Brothers failure, so our target price's EV/EBITDA would appear appropriate as well.

Risks

Factors that may cause the share price to deviate from our target price include earnings growth from FY3/14 missing our forecasts and valuations falling short of our forecasts. This could happen, for example, if passenger volume on the Tohoku Shinkansen remains seriously depressed because of earthquake-related disruptions or if the Tohoku Shinkansen loses market share because of changes in airline pricing policies and flight schedules. Natural disasters causing damage to facilities and inflating costs is another risk factor.

West Japan Railway

Investment strategy

We rate JR West Buy (1), with a ¥4,300 target price. Tourist demand remains buoyant and with expectations of further improvement in the domestic economy, we expect shinkansen revenue to steadily rise. We forecast OP growth of 5.6% YoY in FY3/14. The share price has been lagging over the last few months, and we believe the shares are attractive from a valuation perspective. Over the longer run, we see considerable upside potential for shinkansen revenues and strong earnings from Osaka Station City. We expect JR West to grow shinkansen revenue by capturing senior citizen and inbound demand and hope to see reforms at Osaka Isetan Mitsukoshi. We would be even more optimistic if the next medium-term business offers measures to boost shareholder return and enhance longer term growth potential.

Valuation

Our ¥4,300 target price equates to an FY3/14E PER of 12x to 13x and EV/EBITDA of c6.2x. We use TOPIX as our main valuation reference for railway operators. Specifically, we adopt a fair TOPIX PER of c15x and adjust for such factors as historical discounts/premiums, ROIC-WACC and other profitability measures, growth potential, and financial position to arrive at fair multiples for each company. JR West has historically traded at valuations close to TOPIX. Although we expect improvement in shinkansen revenue as the domestic economy recovers, growth potential over the longer term is unimpressive. As such we set our PER target below the benchmark range. In addition, EV/EBITDA has ranged between 6x and 7x since the Lehman Brothers failure, which we feel is compatible with our target multiple.

Risks

Factors that may cause the share price to fall short of our target price include earnings growth from FY3/14 missing our forecasts and valuations falling short of our assumption. This could happen, for example, if passenger volume on the Kyushu Shinkansen misses our forecasts, Osaka Station City earnings growth is weaker than we expect, or the shinkansen loses market share because of changes in airline pricing policies and flight schedules. Natural disasters causing damage to facilities and inflating costs is another risk factor.

Central Japan Railway

Investment strategy

We rate JR Central Neutral (2), with a ¥9,200 target price. Shinkansen revenue, the core earnings driver for JR Central, remains strong on recovery since the eastern Japan earthquake and firm tourism demand. In FY3/14 and beyond we expect business demand to rise on further improvements in the domestic economy. FY3/14 could see a major swing in results depending on a number of factors, i.e., the schedule for major renovations to begin next term and accounting procedures, while FY3/14 is also the first term for the Yamanashi maglev test track, which is scheduled to open by end-2014. We assume around ¥380bn to ¥400bn to be a sustainable OP level for the next three years or so, and thus think current valuations are appropriate based on these forecasts. Depreciation costs for the maglev shinkansen will be high in the longer term as well, so a large decline in FCF looks all but unavoidable. As such, we think JR Central valuations will remain below those of peers. We would need to see a higher-than-expected increase in demand or

positive news about maglev, such as lower construction costs or a shortened schedule, to reconsider our investment stance.

Valuation

Our ¥9,200 target price equates to a PER of c10x on our estimates for FY3/15, which is about the sustainable earnings level for the next three years, and a FY3/14E EV/EBIDTA of 6.2x. We use TOPIX as our main valuation reference for railway operators. Specifically, we adopt a fair TOPIX PER of c15x and adjust for such factors as historical discounts/premiums, ROIC-WACC and other profitability measures, growth potential, and financial position to arrive at fair multiples for each company. JR Central has traded at a 30%-40% discount to TOPIX since it announced plans to construct the Chuo Shinkansen, and given the rise in shinkansen demand due to the improving domestic economy, we believe a PER of c10x is fair. Our target EV/EBITDA of 6.2x is based on past trends, the above discount factors, and comparison with JR East and JR West.

Risks

Factors that may cause the share price to deviate from our target price include earnings growth from FY3/14 exceeding/missing our forecasts and valuations exceeding/missing our assumption. This could happen, for example, if Tokaido Shinkansen demand deviates from our forecasts or if the shinkansen loses/gains market share because of changes in airline pricing policies and flight schedules. Natural disasters causing damage to facilities and inflating costs is another risk factor.

Appendix A-1

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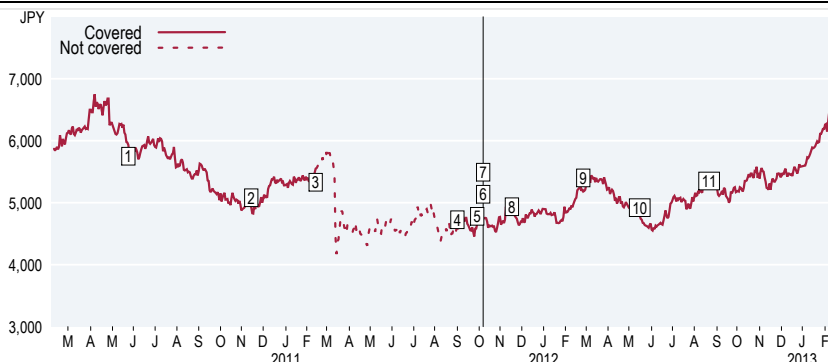
IMPORTANT DISCLOSURES

East Japan Railway (9020)

Ratings and Target Price History Fundamental Research

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	25-May-10	*2M	*6,600	5,930
2	15-Nov-10	2M	*5,400	4,925
3	14-Feb-11	Coverage terminated		
4	1-Sep-11	*1L	*5,200	4,590

* Indicates change

	Date	Rating	Target Price	Closing Price
5	29-Sep-11	1L	*5,400	4,660
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	5,400	4,740
8	17-Nov-11	1	*5,700	4,875

	Date	Rating	Target Price	Closing Price
9	27-Feb-12	1	*6,400	5,180
10	16-May-12	1	*5,900	4,790
11	22-Aug-12	1	*6,000	5,310

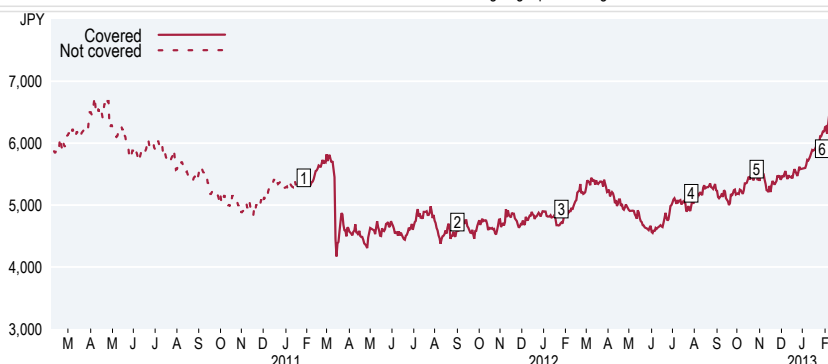
Rating/target price changes above reflect Eastern Standard Time

East Japan Railway (9020)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD LP	-	5,380
2	1-Sep-11	*REM LP	-	4,590

* Indicates change

	Date	Rating	Target Price	Closing Price
3	26-Jan-12	*ADD MP	-	4,720
4	27-Jul-12	*REM MP	-	4,990

	Date	Rating	Target Price	Closing Price
5	29-Oct-12	*ADD MP	-	5,580
6	29-Jan-13	*REM MP	-	6,150

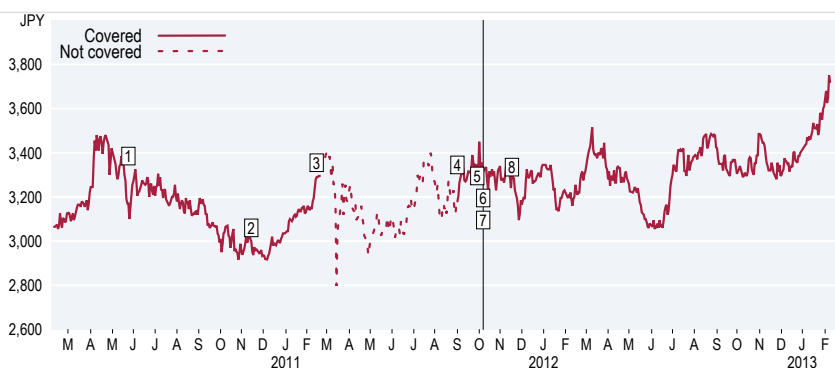
Rating/target price changes above reflect Eastern Standard Time

West Japan Railway (9021)

Ratings and Target Price History Fundamental Research

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	25-May-10	2M	*3,600	3,170
2	15-Nov-10	2M	*3,230	3,000
3	15-Feb-11	Coverage terminated		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	1-Sep-11	*1L	*3,700	3,180
5	29-Sep-11	1L	*3,950	3,345
6	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
7	7-Oct-11	*1	3,950	3,315
8	17-Nov-11	1	*4,000	3,295

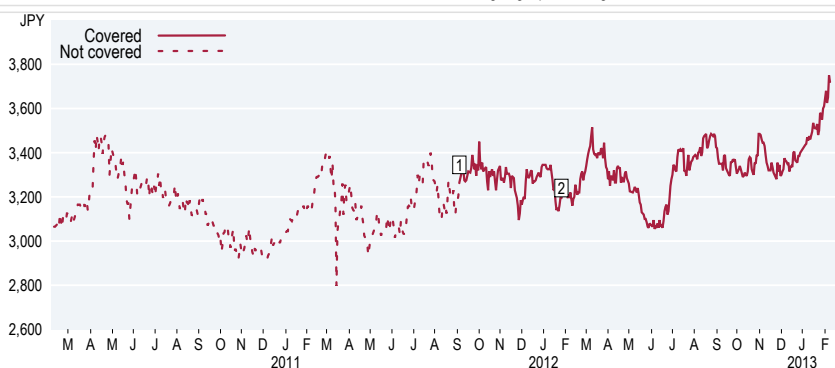
Rating/target price changes above reflect Eastern Standard Time

West Japan Railway (9021)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	5-Sep-11	*ADD MP	-	3,265

* Indicates change

	Date	Rating	Target Price	Closing Price
2	26-Jan-12	*REM MP	-	3,195

Rating/target price changes above reflect Eastern Standard Time

Central Japan Railway (9022)

Ratings and Target Price History Fundamental Research

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	25-May-10	*1M	*8,850	7,270
2	15-Nov-10	1M	*7,900	6,300
3	14-Feb-11	Coverage terminated		
4	1-Sep-11	*2L	*6,800	6,460

* Indicates change

	Date	Rating	Target Price	Closing Price
5	29-Sep-11	2L	*7,400	6,830
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*2	7,400	6,720
8	17-Nov-11	2	*7,500	6,690

	Date	Rating	Target Price	Closing Price
9	16-May-12	2	*7,350	6,400
10	22-Aug-12	2	*7,700	6,860

Rating/target price changes above reflect Eastern Standard Time

Central Japan Railway (9022)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Akira Funae

Covered since September 1 2011



	Date	Rating	Target Price	Closing Price
1	27-Jan-11	*ADD MP	-	6,890

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Sep-11	*REM MP	-	6,460

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2012

Citi Research Global Fundamental Coverage

% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
49%	38%	12%	7%	86%	7%
53%	49%	45%	60%	49%	55%

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