

Highlights of Major General Construction Companies' Financial Results for Fiscal Year Ended March 2023

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2023 (FY2022) and earnings forecasts for FY2023 of Japan's four major general construction companies (collectively, the "Companies"): TAISEI CORPORATION (security code: 1801), OBAYASHI CORPORATION (security code: 1802), SHIMIZU CORPORATION (security code: 1803) and KAJIMA CORPORATION (security code: 1812).

1. Industry Trend

According to the Current Survey on Orders Received for Construction, the total value of orders received for domestic construction by Japan's 50 major general construction companies for FY2022 was high at 15,885.1 billion yen, growing 7.8% from the previous year to top 15 trillion yen for the first time in four years. Construction works increased in both public and private sectors, reaching 3,704.4 billion yen and 11,635.7 billion yen with year-on-year growth of 10.6% and 6.5%, respectively. In particular, orders for private-sector construction works from manufacturing companies showed double-digit growth for two years in a row, contributing to the surge in the total value of orders. JCR assumes that the total value of orders received for domestic construction by Japan's 50 major general construction companies will remain at a high level in the medium run, too. As for the public works, constructions for building national resilience and dealing with the aging of infrastructures, as well as defense-related and other works, are anticipated. In the private sector, redevelopment projects in central Tokyo, the construction of large-scale logistics facilities, semiconductor- and electronic device-related plants and data centers and so forth are projected.

While a large order volume is expected as mentioned above, attention must be paid to changes in construction material and labor expenses. Prices of construction materials such as steel are leveling out but remain high. Labor expenses are also on an uptrend. Given that regulatory caps on overtime works will become applicable in the construction industry, too, starting in April 2024, labor supply-demand conditions are expected to tighten, pushing up labor expenses for a while. Therefore, JCR is closely watching whether construction companies can maintain and improve the profitability of private-sector construction projects through the price pass-through to customers, productivity improvement, etc. As for the public works, because contract terms already include a clause that allows parties performing construction works to pass on rising costs such as material and labor costs to customers, the impact on the profitability of construction projects is marginal.

2. Financial Results

For FY2022, construction business orders of the Companies combined on a non-consolidated basis grew 9.0% over the year to 5,792.4 billion yen. By company, while orders increased for TAISEI and KAJIMA, they decreased for OBAYASHI and SHIMIZU, but only marginally. This suggests that the order environment was relatively firm.

For FY2022, consolidated net sales of the Companies combined improved 13.1% over the year to 7,951.8 billion yen, up for two years in a row, while consolidated operating income rose 6.9% to 326.6 billion yen, first increase in two years. Net sales grew for all of the Companies, and operating income for all four but TAISEI, which was adversely affected by faults in a construction project. KAJIMA in particular maintains robust performance compared to the other three, as indicated by operating income topping 100 billion yen since FY2015. As the contributing factor here, while the other three companies reported a large amount of provision for loss on construction contracts due to faults in a construction project and unprofitable works, KAJIMA did not experience such events.

The Companies' simple average of gross profit margin on completed construction contracts on a non-consolidated basis fell 0.2 percentage points over the year to 8.3% in FY2022. By segment, it stood at 16.2% for civil engineering, down 0.1 percentage points, and 6.1% for building construction, down 0.2 percentage points. As such, profitability remained at around 15% for civil engineering but was low for

building construction because the rise in construction material expenses was not fully passed on to customers.

On the financial front as of the end of FY2022, equity capital showed year-on-year growth for all of the Companies except for TAISEI, which proactively executed share repurchases. However, equity ratio fell for all four due to such factors as: i) an increase in advances paid partly because of construction projects becoming larger in scale; ii) increase in assets as a result of aggressive investments; and iii) a slowdown in the accumulation of equity capital because of the enhanced shareholder returns by way of increasing dividends, executing share repurchases and so forth. Moreover, while TAISEI and OBAYASHI are in a net cash position, SHIMIZU and KAJIMA are in a net debt position as they have been accelerating the development of office buildings, logistics facilities, etc. Close attention will be paid to see whether they can steadily recover their investments going forward.

3. Highlights for Rating

Construction business orders of the Companies combined on a non-consolidated basis are projected to fall 5.6% over the year to 5,470.0 billion yen in FY2023. Despite such negative factors as the elimination of the previous year's large orders, they are still likely to remain relatively high at around 5.5 trillion yen.

Consolidated net sales and operating income of the Companies combined for FY2023 are expected to rise 6.5% and 3.3% over the year to 8,465.0 billion yen and 337.5 billion yen with the third and second consecutive increase, respectively. Both the net sales of completed construction contracts and gross profit on completed construction contracts are expected to increase as large-scale construction projects on hand will get into full swing. By company, SHIMIZU, TAISEI and OBAYASHI forecast an operating income of below 100 billion yen due to unprofitable and less profitable projects, etc. KAJIMA on the other hand expects the income to reach around 150.0 billion yen, thus far outperforming the other three for two years in a row.

For FY2023, stable profits are expected for all of the Companies, and a sound financial structure will likely be maintained. That said, SHIMIZU and KAJIMA project a considerable amount of interest-bearing debt as they are accelerating investments. JCR will closely watch whether they can maintain financial discipline while recovering investments over the medium to long term.

Mikiya Kubota, Yasuhiro Shimoda

(Chart 1) Business Performance of Four Major General Construction Companies

(JPY 100 mn)

	FY	Construction Business Orders	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
TAISEI (1801)	2021	12,340	15,432	960	1,032	714
	2022	14,470	16,427	547	631	471
	2023F	13,900	17,600	640	670	450
OBAYASHI (1802)	2021	15,112	19,228	410	498	391
	2022	14,549	19,838	938	1,008	776
	2023F	14,200	22,800	740	790	550
SHIMIZU (1803)	2021	14,200	14,829	451	504	477
	2022	14,012	19,338	546	565	490
	2023F	12,800	19,450	575	540	500
KAJIMA (1812)	2021	11,508	20,796	1,233	1,521	1,038
	2022	14,893	23,915	1,235	1,567	1,117
	2023F	13,800	24,800	1,420	1,500	1,050
Total	2021	53,160	70,285	3,054	3,555	2,620
	2022	57,924	79,518	3,266	3,771	2,854
	2023F	54,700	84,650	3,375	3,500	2,550

* Construction Business Orders is on a non-consolidated basis.

Source: Prepared by JCR based on financial materials of above companies

(Chart 2) Gross Profit Margin on Completed Construction Contracts (non-consolidated)

(%)

	FY	Gross Profit Margin on Completed Construction Contracts	Civil Engineering	Building Construction
TAISEI (1801)	2021	11.3	20.2	8.5
	2022	7.4	20.4	3.6
	2023F	7.5	18.5	3.9
OBAYASHI (1802)	2021	5.9	13.8	3.6
	2022	9.9	15.3	8.3
	2023F	8.0	12.8	6.9
SHIMIZU (1803)	2021	5.2	14.7	2.8
	2022	5.2	10.9	4.1
	2023F	6.0	10.8	5.0
KAJIMA (1812)	2021	11.7	16.5	10.3
	2022	10.6	18.0	8.5
	2023F	10.4	16.9	8.6
Simple Average	2021	8.5	16.3	6.3
	2022	8.3	16.2	6.1
	2023F	8.0	14.8	6.1

Source: Prepared by JCR based on financial materials of above companies

(Chart 3) Financial Indicators

(JPY 100 mn, %)

	FY	Equity Capital	Interest-bearing Debt	Net Interest-bearing Debt	Equity Ratio	Provision for Loss on Construction Contracts
TAISEI (1801)	2021	8,688	2,243	-2,747	44.4	141
	2022	8,291	2,016	-2,142	41.1	478
	2023F	-	-	-1,052	-	-
OBAYASHI (1802)	2021	9,556	2,804	94	39.5	531
	2022	9,971	3,379	-887	38.2	432
	2023F	-	3,400	-	-	-
SHIMIZU (1803)	2021	8,244	4,951	2,080	38.7	541
	2022	8,525	5,772	1,904	34.8	654
	2023F	-	6,300 or less	-	-	-
KAJIMA (1812)	2021	9,457	3,599	864	40.5	138
	2022	10,524	5,377	2,516	38.0	147
	2023F	-	5,000	-	-	-
Total	2021	35,945	13,597	291	-	1,351
	2022	37,311	16,544	1,391	-	1,711

Source: Prepared by JCR based on financial materials of above companies

<Reference>

Issuer: TAISEI CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: OBAYASHI CORPORATION

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: SHIMIZU CORPORATION

Long-term Issuer Rating: AA-p Outlook: Stable



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