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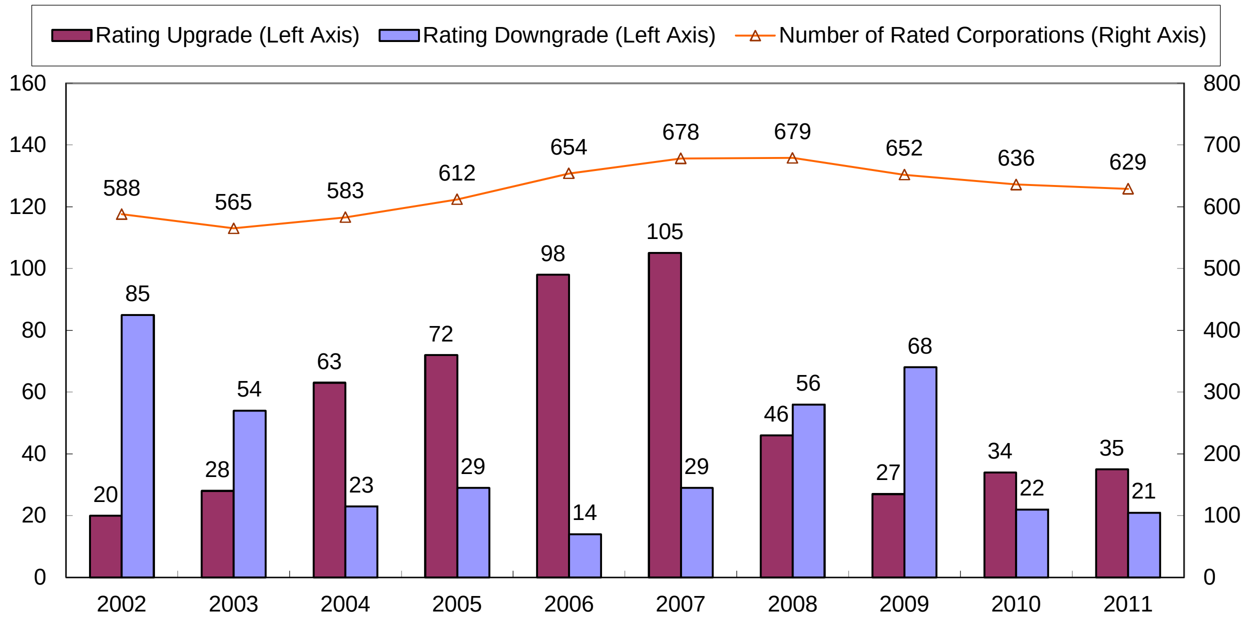
JCR's Rating Results for 2011

Japan Credit Rating Agency, Ltd. (JCR) has put together all the rating results for 2011. The number of long-term ratings assigned is 629 issuers, which decreased from the number for 2010. The reasons for the decrease are that there were rating withdrawals in services and electric appliances against a background of deterioration in business performance and that there were drops in the number of issuers, to which JCR assigned the ratings, owing to the merger and management integrations, as seen in the last year.

The number of rating changes is divided into rating upgrades for 35 issuers (34 issuers for 2010) and rating downgrades for 21 issuers (22 issuers for 2010). The number of rating upgrade exceeded the number of rating downgrade for two years in a row (Table 1).

Table 1. The Number of Rated Issuers and Rating Changes (Long-term Ratings for Residents)



Note 1. One count for multiple rating changes a year.
2. The counted issuers are issuers, to which JCR assigned the long-term ratings. The Government bonds, guaranteed bonds except those of holding companies and structured finance are excluded from the counts.

The Japanese economy that had been in a recovery phase from Lehman shock was significantly damaged by the occurrence of the Great East Japan Earthquake in March and the following nuclear accidents and malfunction of supply chain. At the same time, it seems that sharply and temporarily declined consumer confidence in the wake of the quake, political turmoil till change of the prime minister in September and the central government's delay in responses to the quake had negative impact on the economy.

The world's economic slowdown and historical appreciation of the yen in addition to the domestic factors described above are working as downward pressures on the corporate earnings for FY 2011 (from April 2011 through March 2012). It seems that the financial results for the first half of FY 2011 (from April through September) of the listed companies all together showed a more than 15% drop for the ordinary income from the same period a year earlier. In the second half of FY 2011, external environment surrounding issuers, in particular, manufacturing industry, worsened further, owing to the getting worse European sovereign debt crisis and occurrence of large-scale flood in Thailand. Since one after another corporations revised downward their earnings forecasts for the full FY 2011 or cancelled release of their forecasts at the time of release of their financial results for the first half of FY 2011 and effects from the various government policies, which raised the economy in the previous year, peaked out, scenario for a rapid recovery from the second half of FY 2011 following demands for reconstruction from the quake, which has been assumed at the time of the beginning of FY 2011, was collapsed. Furthermore, it is now more likely that the corporate business performance all together will show a drop in earnings for the full FY 2011. The latest Bank of Japan's tankan survey showed that business conditions of the corporations centering on electric appliances and the related glass have deteriorated rapidly.

Among the corporations, earnings are relatively robust for the corporations that have taken in the demands of the emerging countries, provide domestic-type and unique services or have notably high market shares. Meanwhile, the persistent appreciation of the yen has a serious impact on the corporate management of export companies. In addition, there is concern that European sovereign debt crisis may have negative impact on not only the European economy but the world economy, depending on the responses from the related countries. Effects of flooding in Thailand cannot be disregarded in light of the recent corporate inroads into the country. As shown by these concerns, the situation both in Japan and abroad is unpredictable.

Table 2. Rating Change by Industry

	2008		2009		2010		2011	
Industry	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Foods	2		5		2		1	
Textiles & Apparels				1	1			
Pulp & Paper		1					1	1
Chemicals		1	1	1		2	4	
Pharmaceutical	1							
Oil & Coal Products	1			1	1			
Rubber Products								
Glass & Ceramics Products	1	1		3		1		
Iron & Steel	1			1		1		
Nonferrous Metals				2	1			
Metal Products	1	1		1		1		
Machinery	1		1	1	3			
Electric Appliances	3	1	2	4	3		1	2
Transportation Equipment	1	1	1	5		1	3	
Precision Instruments	1							
Other Products		1		2	1			
Total for Manufacturing Industry	13	7	10	22	12	6	10	3
Construction	1	6		1	1		1	
Electric Power & Gas								9
Land Transportation	5		1	1				
Marine Transportation						2		2
Air Transportation				2		2		
Warehousing & Harbor Transportation Services								
Information & Communication	2	2	3	3	1	1	2	
Wholesale Trade	2		2		1		4	
Retail Trade	2	4	2	1	4	2	3	
Banks	6	14	2	13	11	3	8	3
Securities & Commodity Futures	1	7		3		2		2
Insurance	2	3		8	2		3	1
Other Financing Business	4	4	4	6	1	2	1	
Real Estate	5	8	1	7		1	2	
Services	2	1	2	1	1	1	1	1
Total for Non-manufacturing Industry	32	49	17	46	22	16	25	18
Total	**45**	**56**	**27**	**68**	**34**	**22**	**35**	**21**
FILP Agency	1							

Note 1. One count for multiple rating changes a year.
2. Real Estate includes J-REIT.

Those industries JCR upgraded the ratings for 2011 were 12 issuers of financing business such as Banks, Insurance, etc. (14 issuers for 2010) at the top, followed by 4 issuers for Chemicals and Wholesale Trade, respectively (0 and 1 for 2010, respectively) and 3 issuers for Transportation Equipment and Retail Trade, respectively (0 and 4 for 2010, respectively). Those issuers JCR downgraded the ratings for 2011, on the other hand, were 9 issuers of Electric Power & Gas (Electric Power) with the largest number (0 for 2010), followed by 6 issuers of financing business (7 issuers for 2010), 2 issuers of Marine Transportation (2 issuers for 2010), 2 issuers of Electric Appliances (0 for 2010) (Table 2).

Concerning the Great East Japan Earthquake, the issuers whose ratings were downgraded owing to the quake remained limited to the electric power and part of the financial institutions in the affected area. On the contrary, there are not a few cases in which earnings and financial conditions have improved further among the issuers, which have taken in the demands of the emerging countries successfully or enjoyed the benefits of commodity market conditions and higher yen, without being affected by the quake directly, while their managerial efforts that had been made to date became obvious. Since the rating upgrades for these issuers concentrated in the first half of the year, the number of rating upgrades exceeded the number of rating downgrades for the full 2011. However, division of 2011 into the four quarters reveals that excess of rating upgrades over rating downgrades in number continued through only the 1st quarter (from January through March) and the 2nd quarter (from April through June) and that the rating downgrades rapidly increased in and after the 3rd quarter (from July through September) and the number of the rating downgrades exceeded the number of the rating upgrades for the 3rd quarter and the 4th quarter (from October through December) for the two quarters in a row. JCR thinks that this trend will continue for a while in light of the external environment surrounding the rated issuers and analyzes that it is highly likely that the rating trend for 2012 will be different from the years 2010 through 2011 where the number of the rating upgrades exceeded the number of the rating downgrades.

Table 3. Rating Distribution by Rating Category

Rating	2008		2009		2010		2011	
	Count	Proportion	Count	Proportion	Count	Proportion	Count	Proportion
AAA	27	4.0%	25	3.8%	25	3.9%	16	2.5%
AA	114	16.8%	112	17.2%	116	18.2%	125	19.9%
A	304	44.8%	291	44.6%	288	45.3%	298	47.4%
BBB	214	31.5%	209	32.1%	199	31.3%	186	29.6%
BB	16	2.4%	7	1.1%	6	0.9%	3	0.5%
B	1	0.1%	2	0.3%	0	0.0%	0	0.0%
CCC to C	0	0.0%	2	0.3%	1	0.2%	1	0.2%
D	3	0.4%	4	0.6%	1	0.2%	0	0.0%
Total	679	100.0%	652	100.0%	636	100.0%	629	100.0%

The Rating Distribution by Rating category (Table 3) shows that AAA accounted for 2.5% for 2011 (down 1.4%), AA rating category for 19.9% (up 1.7%), A rating category for 47.4% (up 2.1%), BBB rating category for 29.6% (down 1.7%), BB or lower for 0.6% (down 0.6%). The characteristics of 2011 are while the number of the issuers rated at AAA dropped significantly from the end of 2010, because 9 issuers out of the 11 electric power companies, to which JCR had been assigning the highest ratings against a background of their strong business system, were downgraded all at once, the number of the issuers in the AA rating category, the primary level after these rating changes, increased.

The number of listed company failures for 2011 was 4. The number dropped for three years in a row for 2011, following the number of 20 (decrease by 13 year-on-year) for 2009 and the number of 9 (decrease by 11 year-on-year) for 2010, respectively. The total debt amount dropped sharply for 2011 to 43.7 billion yen from 2.3 trillion yen for 2010 where there were bankruptcies of the emerging real estate companies, which continued after Lehman shock, and bankruptcies of large corporations such as Japan Airlines and Takefuji. There is no issuer, to which JCR assigns the rating, and that fell into the D rating (in default).

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