

## Highlights of Major General Construction Companies' Financial Results for Fiscal Year Ended March 2021

The following is 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 2021 (FY2020) and earnings forecasts for FY2021 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 combined value of orders received for domestic construction by Japan's 50 major general construction companies in FY2020 was 14,521.8 billion yen, up 2.8% from the previous year. While orders in the private sector dropped 4.9% to 10,096.4 billion yen, those in the public sector climbed 29.6% to 3,905.5 billion yen; consequently, total volume stayed at a high level, topping 14 trillion yen for the fifth consecutive year. The year-on-year decline despite an increase in the construction of logistics facilities in response to the expansion of e-commerce transactions in the private sector is attributable to, among others: FY2020 falling into the drop-off period in terms of large-scale projects; and postponement and cancellation of some of the projects that are greatly affected by the COVID-19 pandemic, including lodging facilities. Public works, on the other hand, increased sharply with growth in orders for building national resilience and dealing with the aging of infrastructures.

While the order volume is at a high level as mentioned above, competition is increasing, especially for private-sector projects. Companies are more willing to secure future projects at an early point due to uncertainty about economic conditions amid the COVID crisis, resulting in lower profitability at the time of order receipt than before, particularly for private-sector projects. The amount of order backlog of 50 major companies as of March 2021 remained at a high level, growing 6.6% from a year before to 19,171.2 billion yen, which shows that profitability at the time of order receipt has not, in fact, dropped drastically. Yet, JCR will closely look at how this profitability changes for the companies in the event that order volume decreases when competition gets tougher going forward.

### 2. Financial Results

In FY2020, the Companies' combined value of construction business orders on a non-consolidated basis dropped slightly from the previous year by 0.7% to 5,128.6 billion yen. By company, while it grew for KAJIMA, which has won large-scale projects, it fell for TAISEI, OBAYASHI and SHIMIZU. As factors behind this, private-sector construction works account for a large part of the orders for the Companies, and the facts that FY2020 fell into the drop-off period in terms of large-scale projects and that small- and medium-scale renovation and other works to be contracted or completed during the year decreased due to the COVID crisis had some impacts. That said, the decline in the orders for the above three companies was marginal, and a certain amount of orders based on respective construction capabilities appears to have been secured.

Consolidated net sales of the Companies combined declined 12.2% over the year to 6,610.4 billion yen in FY2020, first fall in ten years, and so did consolidated operating income by 18.0% to 480.9 billion yen, first fall in two years. All of the Companies reported lower sales and income, and it was the first time since FY2015 that the combined operating income fell below 500 billion yen. Negative factors here include: many of the contracted large-scale projects being in the initial phase, which means that only a few can be fully included in net sales of completed construction contracts and gross profit on completed construction contracts; and a decrease in profitable small- and medium-scale renovation and other works.

The Companies' average gross profit margin on completed construction contracts on a non-consolidated basis rose 0.1 points over the year to 13.5% in FY2020. By segment, it stood at 20.4% for civil engineering, up 1.3 points, and 11.3% for building construction, down 0.5 points. It rose in civil

engineering thanks to additional works and design changes, while falling slightly in building construction due to a decrease in profitable small- and medium-scale renovation and other works.

On the financial front as of the end of FY2020, equity capital showed a year-on-year growth for all of the Companies thanks to an increase in retained earnings, etc., and financial base became stronger, as indicated by the higher equity ratio. While TAISEI was the only one in the net debt-free position at the year-end, net interest-bearing debt was low at below 10 billion yen for OBAYASHI and KAJIMA. As regards SHIMIZU, net interest-bearing debt amounted to as much as around 140 billion yen because of investments in the development of lease properties and construction of a self-propelled SEP (self-elevating platform) vessel, and JCR is closely watching whether these investments can be recovered steadily going forward.

### 3. Highlights for Rating

The Companies' combined value of construction business orders on a non-consolidated basis for FY2021 is projected to increase 5.9% over the year to 5,430.0 billion yen. Only OBAYASHI anticipates less orders, while the other three expects more. Even though attention must be paid to changes in future economic conditions, given, among others, that large-scale redevelopment projects in the private sector are scheduled to be contracted and that small- and medium-scale renovation and other works, which decreased in FY2020, are expected to increase to a certain extent, orders will likely reach a fairly high level. Meanwhile, JCR is carefully watching whether the Companies can win orders while ensuring appropriate margins at a time when the costs of steel and other materials are rising in the midst of intensifying order competition.

Consolidated net sales of the Companies combined are expected to grow 7.6% over the year to 7,110.0 billion yen in FY2021, turning upward after two years, but operating income is projected to drop for two years running by 24.0% to 365.5 billion yen. While net sales of completed construction contracts will likely improve with progress in projects on hand, profitability is expected to decline because of growing competition, and costs of materials and so forth to increase. As regards the Companies' initial forecast, the Companies tend to make conservative estimates due to uncertainty about winning contracts for additional works and design changes, and actual results have thus often been better than these estimates. Given such tendency, it is possible that FY2021 will be the same case; yet, because only a few large-scale projects, which will lead to an upturn in business, are scheduled to be completed during the year, actual results may not outstrip the forecast as much as in the past few years.

For FY2021, stable profits are expected for all of the Companies, albeit lower income prediction, and a favorable financial structure to be maintained. The Companies have announced their plans to accelerate M&A activities, acquire lease properties, etc., and assets with price fluctuation risk have thus increased. The Companies have been making investments with financial discipline in mind, and JCR will keep closely looking at whether they will continue prudent investments based on the careful assessment of business risks and the effectiveness of expenditures.

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

(JPY 100 mn)

Company	FY	Construction Business Orders	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
TAISEI (1801)	2019	13,142	17,513	1,677	1,733	1,220
	2020	12,835	14,801	1,305	1,359	925
	2021F	15,200	16,400	900	930	630
OBAYASHI (1802)	2019	15,324	20,730	1,528	1,590	1,130
	2020	15,091	17,668	1,231	1,287	987
	2021F	13,800	19,100	950	985	715
SHIMIZU (1803)	2019	11,947	16,982	1,338	1,379	989
	2020	11,307	14,564	1,001	1,054	771
	2021F	13,000	15,500	765	770	580
KAJIMA (1812)	2019	11,225	20,107	1,319	1,466	1,032
	2020	12,053	19,071	1,272	1,397	985
	2021F	12,300	20,100	1,040	1,140	800
Total	2019	51,638	75,332	5,862	6,168	4,371
	2020	51,286	66,104	4,809	5,097	3,668
	2021F	54,300	71,100	3,655	3,825	2,725

Source: Financial materials of above companies

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

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

(%)

Company	FY	Gross Profit Margin on Completed Construction Contracts	Civil Engineering	Building Construction
TAISEI (1801)	2019	14.2	23.5	11.3
	2020	14.7	21.3	12.4
	2021F	10.4	18.2	8.2
OBAYASHI (1802)	2019	12.9	19.7	11.2
	2020	13.3	20.2	11.2
	2021F	10.4	15.2	8.9
SHIMIZU (1803)	2019	13.0	19.0	11.4
	2020	12.3	24.6	8.7
	2021F	9.4	13.7	8.4
KAJIMA (1812)	2019	13.4	14.0	13.2
	2020	13.6	15.5	12.7
	2021F	11.6	15.1	10.5
Average	2019	13.4	19.1	11.8
	2020	13.5	20.4	11.3
	2021F	10.5	15.6	9.0

Source: Financial materials of above companies

(Chart 3) Financial Indicators

(JPY 100 mn, %)

Company	FY	Equity Capital	Interest-bearing Debt	Net Interest-bearing Debt	Equity Ratio
TAISEI (1801)	2019	7,501	2,081	-2,745	39.7
	2020	8,408	2,190	-2,752	44.9
	2021F	-	2,300	-	-
OBAYASHI (1802)	2019	8,178	2,485	-735	36.7
	2020	9,310	2,659	30	41.0
	2021F	-	3,000	-	-
SHIMIZU (1803)	2019	7,304	4,413	885	38.3
	2020	8,152	4,226	1,463	42.7
	2021F	-	4,800 or less	-	-
KAJIMA (1812)	2019	7,917	3,268	638	36.5
	2020	8,748	3,170	90	40.4
	2021F	-	4,300	-	-
Total	2019	30,900	12,247	-1,957	-
	2020	34,618	12,245	-1,169	-
	2021F	-	14,400	-	-

Source: 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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