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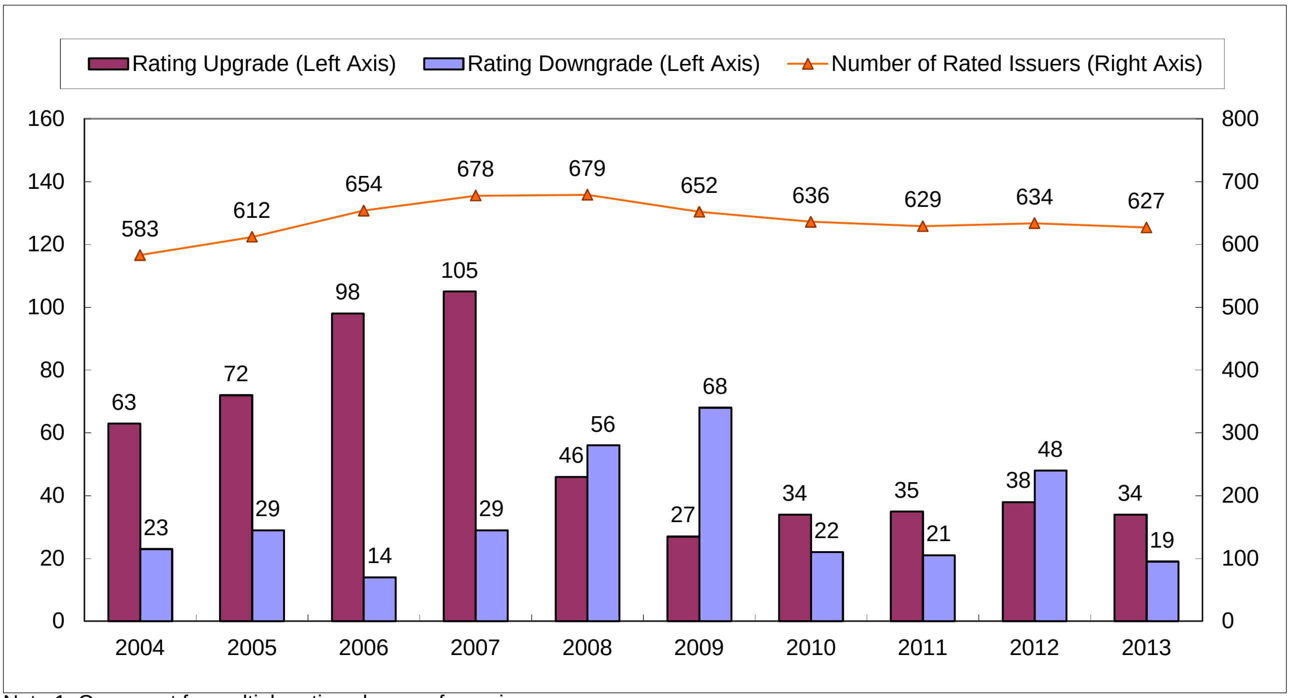
JCR's Rating Results for 2013

Japan Credit Rating Agency, Ltd. (JCR) has put together all the rating results for 2013. The number of domestic issuers for long-term ratings assigned at the end of 2013 is 627, which decreased from the number for 2012 by 7 issuers. There have been many issuers who withdrew their ratings owing primarily to stagnant business performance, being particularly affected by tough business environment that continued for a long period of time through fiscal 2012. While there have been many issuers who acquired ratings anew such as J-REITs against the background of inflow of money to the real estate market, ratings have been withdrawn for the electronics related and shinkin banks continuously. The occurrence of acquisition of new ratings and withdrawal of ratings at the same time is one of the characters for 2013. JCR turned to decline in the number of rated issuers for 2013 again from 2012 when JCR increased the number of rated issuers for the first time in 4 years as a result of the number of withdrawal of ratings exceeding the number of new ratings acquired for the full year.

The number of rating changes is divided into rating upgrades for 34 issuers (38 issuers for 2012) and rating downgrades for 19 issuers (48 issuers for 2012). (Chart 1: One count for multiple rating changes for an issuer a year). Although the number of upgraded issuers and the number of downgraded issuers both for 2013 were below these numbers for 2012, the decline in the number of rating downgrades was striking, causing the number of rating upgrades to exceed the number of rating downgrades for the first time in 2 years. Even if the multiple rating changes are counted as such the number for each case, there is no change in the trend of the number of rating upgrades exceeding the number of rating downgrades.

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



Note 1. One count for multiple rating changes for an issuer a year.
2. The counted issuers are domestic 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 primary industries JCR upgraded for 2013 were the largest 14 issuers of financing business including Banks, Insurance and Other Financing Business (12 issuers for 2012), followed by 4 issuers of Land Transportation (Railroad) (1 issuer for 2012), 3 issuers of Transportation Equipment (0 for 2012), and 3 issuers of Real Estate including J-REITs (4 issuers for 2012). Meanwhile, the industries JCR downgraded for 2013 were the largest 4 issuers of Electric Power & Gas (electric power companies) (8 issuers for 2012), following last year, followed by 3 issuers of Glass & Ceramics Products (4 issuers for 2012), and 3 issuers of Retail Trade (1 issuer for 2012) (Chart 2).

Chart 2. Rating Upgrade/Downgrade by Industry

Industry	2010		2011		2012		2013	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Foods	2		1		1			
Textiles & Apparels	1							1
Pulp & Paper			1	1		2		
Chemicals		2	4		1	1		1
Pharmaceutical								
Oil & Coal Products	1					3		
Rubber Products					1		1	
Glass & Ceramics Products		1			1	4	1	3
Iron & Steel		1			1	4		1
Nonferrous Metals	1						1	
Metal Products		1			1	1		
Machinery	3					1	1	1
Electric Appliances	3		1	2		6	1	
Transportation Equipment		1	3				3	
Precision Instruments								
Other Products	1						1	
Total for Manufacturing Industry	12	6	10	3	6	22	9	7
Construction	1		1		1	2		
Electric Power & Gas				9		8		4
Land Transportation					1	1	4	
Marine Transportation		2		2		1		1
Air Transportation		2						
Warehousing & Harbor Transportation Services								
Information & Communication	1	1	2		2			2
Wholesale Trade	1		4		4	1		
Retail Trade	4	2	3		4	1	2	3
Banks	11	3	8	3	6	2	5	1
Securities & Commodity Futures		2		2	1	3		
Insurance	2		3	1		4	3	1
Other Financing Business	1	2	1		6		6	
Real Estate		1	2		4	3	3	
Services	1	1	1	1	3		2	
Total for Non-manufacturing Industry	22	16	25	18	32	26	25	12
Total	34	22	35	21	38	48	34	19
FILP Agency								

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

While the number of cases of rating changes in financing business was large for 2013 as in the past years (please note, however, that the number of the rating downgrades decreased significantly from 9 issuers for 2012 to 2 issuers for 2013, reflecting the improved financial environment), the fact that rating changes in particular industries that had continued for the past years decreased and, as a result, both rating upgrades and rating downgrades were relatively diversified throughout industries was one of the characters for 2013. Changes in the industries, for which ratings were upgraded, from the beginning of 2013 show that domestic-demand based industries led recovery of the entire industry first, reflecting turnaround of Japanese economy after change in administrations at the end of 2012. JCR's rating upgrades concentrated in the domestic-demand based industries such as Land Transportation, Retail Trade and leasing at the beginning of the year. Since then, the industries, for which ratings were upgraded, have gradually expanded into major manufacturing industries, which suffered from appreciated yen and falling sales in 2012. In particular, resurgence in 2013 of automotive industry, which went through many negative factors including super-strong yen hitting at 75 yen against the U.S. dollar temporarily, the Great East Japan Earthquake, and flood in Thailand happened till the previous year, turned around mind of domestic corporate management and had also good impact on other related industries such as parts and materials industries.

The rating changes for 2013 by quarters indicate that while rating upgrades occurred constantly throughout the year, rating downgrades concentrated in the 1st and 3rd quarters. In the 1st quarter of the year (from January to March), rating downgrades due to delay in business recovery were prominent with a strong sense of uncertainty over business performance remaining from the last year, despite Japanese stock market has risen ahead of business recovery, reflecting a sense of expectancy for the new administration immediately after change in administrations. Meanwhile, slackened growth of exports centering on those for Asia became apparent in the 3rd quarter (from July to September). One of the factors for the slacked growth was slowdown or delay in recovery of economies in emerging countries. No less important is the fact that Japan's trade structure became the one where the exports cannot increase even with depreciation of yen because of progress in overseas transfer of production in the past periods of higher yen. As shown by the recent downward revision of GDP growth rate for this period, slow recovery in capital investments became apparent in this period, which supported outlook for economic recovery depending on public investments. There were cases of rating downgrades in the 3rd quarter of the year for issuers as a result of being left behind in the wave of recovery.

It is expected that “last-minute demand” by consumers will become strong during January to March 2014 when consumption tax rate hike scheduled for April 2014 gets close. Domestic demand that exceeds actual demand can be generated centering on consumer spending including such spending on durable consumer goods, and the inventory investment for the surge in demand is also expected, both of which will push up the Japanese economy temporarily. In the field of public sector, meanwhile, works related to reconstruction from the Great East Japan Earthquake will continue and public investments for the Olympic Games to be held in 2020 in Tokyo will gradually start. It will be difficult to make sure of onset of self-sustained economic recovery for the time being. Many economic recoveries have been driven by exports since 1990s. Although the economic recoveries centering around manufacturing industry were made, patterns of losing momentum before the recovery spreads to wider economy were repeated for several times. The recovery this time is slightly different from these past cases in the starting point at domestic demand rather than exports and also the last-minute demand that can push up business confidence. Sense of caution against fall after the consumption tax rate hike is strong instead.

Overall corporate earnings of the listed companies are expected to increase by about 30% for fiscal 2013 (from April 2013 to March 2014) at this moment, which makes recovery of corporate earnings clearer compared with the previous fiscal year. After corporations went through difficulties that are the declined competitive strength caused by super-strong yen and stagnant demand after Lehman Shock and then improved the profit structure by streamlining efforts one after another, favorable environments such as boosting of domestic demand by “Abenomix,” extremely low interest rates by the Bank of Japan’s “new phase of monetary easing” and depreciation of yen led to corporate recovery, making the earnings recovery more obvious all at once. While there are not a few corporations, which renewed a record income, there are cases where corporations recorded profits far exceeding their actual capacity or cases where corporations failed to keep up with these favorable environments on the contrary. It can be said that profit recovery remains uneven among corporations. As described above, it is necessary to watch closely impact of reactionary fall after consumption tax rate hike on corporate earnings continually. Many say that economic recovery can be felt widely after watching trend in corporate earnings for fiscal 2014.

Chart 3. Rating Distribution by Rating Category

Rating	2010		2011		2012		2013	
	Issuers	Ratio	Issuers	Ratio	Issuers	Ratio	Issuers	Ratio
AAA	25	3.9%	16	2.5%	15	2.4%	15	2.4%
AA	116	18.2%	125	19.9%	126	19.9%	130	20.7%
A	288	45.3%	298	47.4%	306	48.3%	306	48.8%
BBB	199	31.3%	186	29.6%	181	28.5%	169	27.0%
BB	6	0.9%	3	0.5%	4	0.6%	5	0.8%
B	0	0.0%	0	0.0%	0	0.0%	0	0.0%
CCC to C	1	0.2%	1	0.2%	1	0.2%	2	0.3%
D	1	0.2%	0	0.0%	1	0.2%	0	0.0%
Total	636	100.0%	629	100.0%	634	100.0%	627	100.0%

Rating changes across rating categories all at once that had been seen till 2011 have decreased since 2012. There were no significant changes in the Rating Distribution by Rating Category (Chart 3) for 2013 in general. The ratio of category AAA is 2.4% with no change from a year ago. The ratio of category AA increased to 20.7%, up by 0.8 percentage points (p.p.), owing primarily to assignment of new ratings at AA to J-REITs and other and rating upgrades from category A to category AA, following management integration and enhancement of earnings base. The ratio of category A also increased by 0.5 p.p. to 48.8% owing primarily to multiple rating upgrades from category BBB to category A, following turnaround of external environment. On the contrary, the ratio of category BBB decreased relatively largely by 1.5 p.p. to 27.0% owing to change from category BBB to category A and also issuers, for which ratings were withdrawn in 2013, concentrated in category BBB.

The number of failures of listed companies for 2013 was 3, which halved from 6 for 2012. The number is the lowest number following 2 for 2006. Since occurrence of Lehman Shock, failures of listed companies have centered around construction and real estate industries. However, corporate failures did not occur in these industries in 2013. It is assumed that recovery in real estate market and increased works related to reconstruction from the Great East Japan Earthquake had good effects on these industries. The total debt amount of failed listed companies for 2013 decreased significantly to above 30 billion yen from above 500 billion yen for 2012 where there were large corporate failures. The year 2013 was a year where large corporate failures including non-listed companies decreased remarkably.

The number of issuers JCR rated, for which their ratings fell into D rating (JCR judges that all the obligations are in default) or LD rating (JCR judges that a part of obligations is in default) in 2013 was 1: AvanStrate Inc. (in August).

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