

## JCR's Rating Review of General Construction Companies

JCR has reviewed ratings for general construction companies from the following rating viewpoints. Please refer to JCR's press releases 22-D-1608 through 22-D-1610 dated today for rating rationales for individual companies.

### Rating Viewpoints

- (1) JCR has reviewed ratings for major general construction companies (TAISEI CORPORATION ("TAISEI"), OBAYASHI CORPORATION ("OBAYASHI") and SHIMIZU CORPORATION ("SHIMIZU")). JCR assumes that their profits will gradually improve over the medium term, although there will be some variation depending on individual company factors. In addition, all of the three companies subject to the rating review have maintained a sound financial base built up during the boom period (fiscal year ended March 2017 (FY2016) to FY2020). Although they are stepping up investments and shareholder returns, they continue to solidly manage their finances, and their financial bases are expected to remain sound over the medium term. Based on the above, JCR has affirmed the long-term issuer ratings on the three companies with Stable outlook. JCR will continue to monitor the speed of profit recovery and the results of investments for future growth.
- (2) Profit levels declined in FY2021, although the degree of decline varies from company to company. The main reason for the decline is that the profitability of construction work deteriorated due to the full-scale start of large-scale private-sector building construction projects that were awarded at low profitability during a period of intense competition, as well as the rise in prices of steel, ready-mixed concrete, and other construction materials. In FY2022, construction materials prices further increased, and plans for operating income have not reached the level of 100 billion yen or more, as they did during the boom period. JCR believes that a full-fledged recovery of profits will not be achieved for the next one to two years, as the above-mentioned large-scale private-sector building construction projects awarded at low profitability will account for a large percentage of completed construction contracts. However, the risk of a further downturn trend in profits is small. JCR believes that the profitability of construction projects will gradually improve over the next few years, as the profitability at the time of order receipt is improving due to stricter screening following the recent unprofitable and low profitable construction projects and a greater focus on profitability.
- (3) They have a sound financial base, having increased their equity capital while reducing interest-bearing debt during the boom period. TAISEI has firmly become virtually debt free, and OBAYASHI has a small net interest-bearing debt. SHIMIZU's net interest-bearing debt has increased as its investments have progressed, but the increase has been limited to the extent of advances for construction, limiting the expansion of financial risk. In addition, SHIMIZU plans to sell its real estate holdings to a private REIT, and is conducting its financial management with a sense of discipline, so its financial base will remain sound. In addition, while all three companies have posted extraordinary losses in the past, including large write-downs and losses on sales, the majority of their current assets are highly sound.

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### <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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