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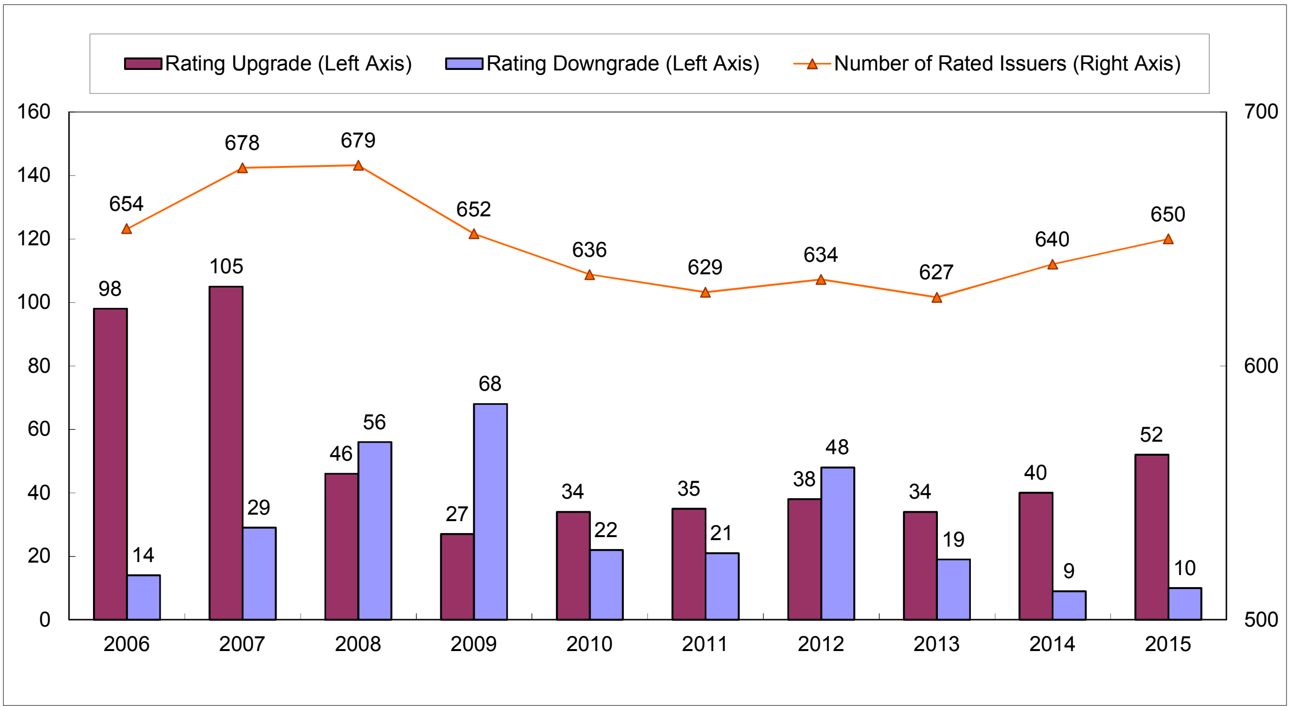
JCR's Rating Results for 2015

*This report applies only to long-term ratings for domestic residents (including J-REITs).

Japan Credit Rating Agency, Ltd. ("JCR") has put together all the rating results for 2015. The number of domestic issuers for long-term ratings assigned at the end of 2015 was 650, which increased from the number for 2014 by 10 issuers. The number of the issuers decreased, after it peaked at 679 in 2008, down to 627 by 52 in 2013. However, JCR maintained the increasing trend of the number in 2015, following 2014, which resulted, in gross terms, from 22 new entries and 12 withdrawals. It should be noted that large corporations with net sales of more than 1 trillion yen including NIPPON TELEGRAPH AND TELEPHONE CORPORATION, FAST RETAILING CO., LTD. and Japan Airlines Co., Ltd. joined as well as 4 new expressway companies and 4 new J-REITs.

The number of rating changes is broken down into rating upgrades for 52 issuers (40 issuers for 2014) and rating downgrades for 10 issuers (9 issuers for 2014). The year 2015 saw the number of rating upgrades exceed the number of downgrades for the third consecutive year (Chart 1). While the number of upgraded issuers was in an increasing trend, the number of downgraded issuers remained at an extremely low level. There were 2 issuers whose ratings were changed more than once and 2 issuers whose ratings were placed as LD, which indicates that JCR judges that a part of an issuer's obligations falls into default.

Chart 1. The Number of Rated Issuers and Rating Changes



(Notes) 1: One count for multiple rating changes for an issuer a year.
2: The counted issuers are domestic issuers including J-REITs, to which JCR assigned the long-term ratings. The government bonds, guaranteed bonds except those of holding companies and structured finance are all excluded from the counts.

Chart 2. Rating Change by Industry

Industry	2011		2012		2013		2014		2015	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Foods	1		1					2		
Textiles & Apparels						1			1	
Pulp & Paper	1	1		2			1			
Chemicals	4		1	1		1	1		2	
Pharmaceutical										
Oil & Coal Products				3						
Rubber Products			1		1					1
Glass & Ceramics Products			1	4	1	3	1	1	1	1
Iron & Steel			1	4		1				
Nonferrous Metals					1		1		2	
Metal Products			1	1			1	1	1	
Machinery				1	1	1			1	
Electric Appliances	1	2		6	1		1		5	1
Transportation Equipment	3				3		1	1	2	2
Precision Instruments										
Other Products					1					1
Total for Manufacturing Industry	**10**	**3**	**6**	**22**	**9**	**7**	**7**	**5**	**15**	**6**
Construction	1		1	2			5		1	
Electric Power & Gas		9		8		4				
Land Transportation			1	1	4		1		3	
Marine Transportation		2		1		1			1	
Air Transportation										
Warehousing & Harbor Transportation Services									1	
Information & Communication	2		2			2	1			
Wholesale Trade	4		4	1			3		1	
Retail Trade	3		4	1	2	3	3	2	2	1
Banks	8	3	6	2	5	1	6	1	9	1
Securities & Commodity Futures		2	1	3			6		2	
Insurance	3	1		4	3	1			3	
Other Financing Business	1		6		6		2		3	1
Real Estate	2		4	3	3		6		7	1
Services	1	1	3		2			1	4	
Total for Non-manufacturing Industry	**25**	**18**	**32**	**26**	**25**	**12**	**33**	**4**	**37**	**4**
Total	**35**	**21**	**38**	**48**	**34**	**19**	**40**	**9**	**52**	**10**
FILP Agency							1			

(Notes) 1: One count for multiple rating changes for an issuer a year.
2: J-REITs are included in Real Estate.

Industries, which saw many rating changes in 2015, are Real Estate, particularly J-REITs, and Banks (Chart 2). Included in the 7 upgraded issuers of Real Estate are 5 J-REITs. These upgraded J-REITs increased their cash flow generation capacity and the quality of portfolios, replacing their assets along with business expansion on the back of the good business environment. For the financing, while they raised funds for the expansion by adding to their interest-bearing debt as well as public offerings, they increased their unrealized gains on the assets on the back of the improving real estate market, and thereby improved the LTV ratio in general. This is one of the reasons for their rating upgrades. The remaining 2 issuers, which are general real estate companies, improved their profitability, supported primarily by the increasing rent in the leasing business, and are recording a record income. Furthermore, it is increasingly likely that their financial structure will improve on their accrued income. For this reason, JCR upgraded its ratings for them. There is 1 issuer in Real Estate section, for which JCR downgraded its rating. This was because the issuer would more likely to decrease its profitability due to the reconstruction of the main leasing building, which was a reason specific to the issuer.

Meanwhile, there are banks whose ratings were upgraded in line with the heightened creditworthiness of the Group. Taking the Group as one issuer, the upgrade comes to 6. Those issuers in the Banks section, which were upgraded for reasons other than the linkage to the Group's creditworthiness, include 1 mega bank, 2 regional banks, 1 shinkin bank, 1 credit association, and 1 new category bank. Despite the tough domestic business environment facing banks as indicated by the ultra-low interest rates and the weak demand for funds, 5 out of the 6 increased their earnings power by strengthening their operating bases and increased their equity capital through a build-up of incomes, which are common reason for their upgrades. The remaining 1 issuer's rating was upgraded due to the management integration. Looking at individual entities, the mega bank strengthened its operating bases on the achievement in the development of non-Japanese customers, whereas so did the regional financial institutions on their mergers, intensive allocation of the management resources to the deposits and lending, and proposal-based sales. The increasing likelihood of further income accumulation thanks to the improved asset quality and decreased credit costs is a factor for the upgrades. There is a bank for which JCR downgraded the rating. The reasons were the increased credit cost and lower earnings power, contrary to aforementioned upgraded cases.

Further breakdown of industrial classifications indicates that there were characteristic moves for JCR's ratings for the department stores and LCD related companies in 2015. JCR upgraded 2 department store operators, mainly because JCR judged that the long and persistent declining trend of the domestic department store sales, which had been a constraining factor for the ratings of the department store operators for a long period of time, turned around thanks to the wealthy people's moves to purchase luxury products and the rapid increase in foreigners' purchases. As for the LCD related companies, the companies of inferior cost competitiveness and/or marketing power were unable to ensure adequate production and/or sales relative to capacity, and hence faced difficulty in investment recovery, because the LCD panels and glasses for LCD panels became non value-added products long time ago. Against this backdrop, 2 LCD related companies fell into LD.

Comparison between the manufacturing industry and the non-manufacturing industry shows that the rating upgrades in the former remains higher than those in the latter: 37 out of the 52 issuers (if excluding those due to the credit link, 28 out of 43 issuers) whose ratings were upgraded were those in the non-manufacturing industry in 2015. In 2014, 33 out of 40 issuers upgraded were companies in the non-manufacturing industry. The rating upgrades for the manufacturing industry, however, increased from 7 issuers in 2014 to 15 issuers in 2015. There were also 16 issuers for which the rating outlook was revised upwards (including revision from Negative to Stable) in 2015. As shown by these results, the overall rating trend is in an upward trend.

There were as many as 13 issuers in the 4 Groups whose ratings were upgraded in tandem with Group's higher creditworthiness. There were 2 issuers in 1 Group whose ratings were downgraded. There were 2 issuers whose ratings were upgraded due to changes in the parent company (including changes in the shareholding ratio). One issuer was upgraded for the reason of its changed position in the Group.

The direct reasons for the rating upgrades were their increased earnings power and the following improvement of their financial structure for almost all of the upgraded issuers. While the increased earnings power relies, to a large extent, on the good business environment, outstanding were the number of issuers who achieved the rating upgrades by their structural reforms in terms of business, business portfolio, and cost. These structural reforms, that is revisions, improvement and liquidation of the unprofitable sectors and transactions, cost reduction, strengthening of the earnings of the businesses other than the main business and others, led to an increase in their earnings power and its stability.

As for the individual rating downgrades, it is noteworthy that 2 issuers were downgraded because of their delays in realization of M&A effects, which caused burden to their earnings and financial structure, and 1 issuer whose rating was downgraded by more than 2 notches due to the recall incident.

The upward revisions of rating outlooks without change to the ratings significantly exceeded the downward revisions in 2015, which was the same tendency as in 2014 (Chart 3). However, the downward revisions in this manner were only 3 issuers in 2014, but such revisions increased to 9 in 2015, showing a somewhat different picture. These revisions were made largely due to the individual factors of the issuers. JCR will rather pay attention to the overall moves in 2016.

The ratings of most of the issuers who saw their rating outlooks revised to Positive in 2014 were upgraded in 2015. There were 3 issuers whose ratings were affirmed but rating outlooks were revised from Positive to Stable in 2015. These issuers belong to the same Group.

Chart 3. Revisions of Rating Outlook from "Stable"

	2014		2015	
	1. From Stable To Positive	2. From Stable To Negative	From Stable To Positive	From Stable To Negative
Manufacturing Industry	11	1	15	2
Non-Manufacturing Industry	13	2	20	7
Of which, Financing Business	4	0	5	2
Total	24	3	35	9

Rating Outlook in 2014 and Trend in 2015

	Revised to Positive in 2014 (1. in Upper Table)*			Revised to Negative in 2014 (2. in Upper Table)*		
Rating	Upgrade	Affirmation		Downgrade	Affirmation	
From Rating Outlook (2014) To Rating Outlook (2015)		From Positive To Positive	From Positive To Stable		From Negative To Negative	From Negative To Stable
Manufacturing Industry	6	1	2	0	0	0
Non-Manufacturing Industry	10	2	1	0	1	1
Of which, Financing Business	4	1	0	0	0	0
Total	16	3	3	0	1	1

*Before Reviews: Positive: 2 and Negative: 1

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