TOPICS

January 4, 2021

JCR's Rating Results for 2020

1 Resident Long-term Rating

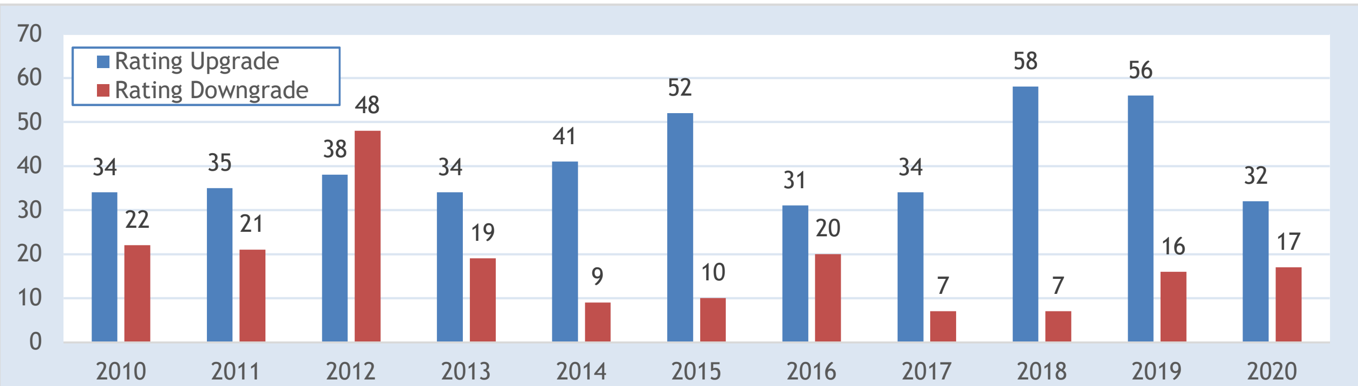
Concerning JCR's number of rating changes for 2020, while the number of rating upgrades was 32 issuers (56 issuers for 2019), the number of rating downgrades was 17 issuers (16 issuers for 2019). The year 2020 saw the number of rating upgrades exceeding the number of downgrades for the 8th consecutive year (Chart 1: one count for multiple rating changes in the same direction for an issuer a year). While the number of rating upgrades far exceeded 50 issuers for 2 years in a row, 58 issuers in 2018 and 56 issuers in 2019, this number significantly decreased in 2020 from 2019. The number of rating downgrades in 2020 remained almost unchanged from that in 2019. The change in the trend is more clearly reflected in the rating outlook without change of ratings. The number of rating outlook revisions from Stable to Positive was limited to 13 issuers (46 issuers in 2018 and 36 issuers in 2019), but the number of rating outlook revisions from Stable to Negative, on the contrary, significantly increased to 38 issuers (15 issuers in 2018 and 7 issuers in 2019). The latter number was approximately three times higher than the former. This suggests that the number of rating downgrades is likely to exceed the number of rating upgrades for the first time in 9 years in 2021.

Needless to say, the main cause of this situation is the COVID-19 pandemic. A number of companies saw their earnings deteriorate significantly in the January-March quarter of 2020 at the beginning of the year, but the global COVID-19 pandemic crisis shows no signs of abating yet, and there is still strong downward pressure on corporate earnings as a whole. However, the COVID-19 pandemic impact on credit ratings is not uniform, as we will discuss later.

In the manufacturing sector, the numbers of both rating upgrades and downgrades were small and sporadic, and there were no industry-specific characteristics. Including the number of rating outlook revisions, however, there were some industry-specific characteristics.

First, it is Iron & Steel. JCR downgraded 1 issuer, and revised the rating outlook from Stable to Negative for 3 issuers (2 issuers out of 3 issuers is in the same group). The blast furnace steel manufacturers are facing the most challenging business environment since the mid 00s. In addition to the structural decline in domestic

Chart 1 Rating Changes (Resident Long-term Rating)



Notes1: One count for multiple rating changes in the same direction for an issuer a year
2: The counted issuers are resident issuers including investment corporations, to which JCR assigned the long-term ratings. Japan, guaranteed bonds of issuers except holding companies and structured finance are all excluded from the counts.

Chart 2　Rating Change by Industry

Industry	2016 Upgrade	2016 Downgrade	2017 Upgrade	2017 Downgrade	2018 Upgrade	2018 Downgrade	2019 Upgrade	2019 Downgrade	2020 Upgrade	2020 Downgrade
Foods			1		3		2			
Textiles & Apparels			2							
Pulp & Paper	1									
Chemicals	2	1	3		2		5		1	1
Pharmaceutical									1	
Oil & Coal Products	1				2		2			
Rubber Products	2	1							1	1
Glass & Ceramics Products	1	1			2		1		1	
Iron & Steel					1		1	1		1
Nonferrous Metals		1	1		1					1
Metal Products		1	1					1		
Machinery	1		2		1		3	1	1	1
Electric Appliances	4		1		2	1	4			2
Transportation Equipment	1	2		2	2	1		3		1
Precision Instruments							1			
Other Products		1			4					
Total for Manufacturing Industry	13	8	11	2	20	2	19	6	5	8
Construction			1		5		3		3	
Electric Power & Gas		1					1		3	
Land Transportation	3		3				2			
Marine Transportation		3						2		
Air Transportation			2							
Warehousing & Harbor Transportation Services		1	1						1	
Information & Communication	1		3				2			
Wholesale Trade			1		3		3		1	1
Retail Trade	1	3	2	1	3		3		4	1
Banks	2		9	1	13	5	4	4	1	3
Securities & Commodity Futures			2		1					
Insurance	3		3		6		1		2	
Other Financing Business	1	2	3	1	5		10	2	7	1
Real Estate	6	1	7	1	2		8	1	1	1
Services	1	1	4					1	1	2
Total for Non-manufacturing Industry	19	12	37	4	38	5	37	10	24	10
Public									3	
Total	31	20	52	10	58	7	56	16	32	17

Notes1: One count for multiple rating changes in the same direction for an issuer a year.
2: Investment corporations are apportioned to Real Estate or Electric Power & Gas.

demand and intensifying competition in the export market, there has been a drop in demand due to the COVID-19 pandemic. JCR is concerned about a decline of their earnings capacity and delays in financial improvement.

For the Transportation Equipment, situations faced by automobile related industries are getting tougher. JCR downgraded 1 issuer and the affiliated automobile sales finance company. In addition, JCR revised the rating outlooks for 2 issuers from Stable to Negative. This was due to the addition of the decline in automobile unit sales caused by the COVID-19 pandemic to the declines in profitability and productivity overseas that have been seen.

Meanwhile, in the Pulp & Paper, JCR revised the rating outlook for 2 issuers from Stable to Positive, and 1 issuer from Negative to Stable. This reflects progress in strengthening and improving their earnings capacity thanks to penetration of product price hikes, reorganization of the industry's production system, and management efforts of individual companies.

In the non-manufacturing sector, JCR upgraded 7 issuers in the Other Financing Business (3 issuers out of them are in the same group), 4 issuers in the Retail Trade, 3 issuers in the Construction, and 3 issuers in the Electric Power & Gas, while JCR downgraded 3 issuers in the Banks, 2 issuers in the Services, and 1 issuer in the Retail Trade.

In the Other Financing Business, 5 issuers were upgraded with their increased positions within the group. The other 2 issuers, both consumer finance companies, were upgraded because their interest repayment losses have calmed down, and they are expected to secure a net income and increase their shareholders' equity.

In the Retail Trade, 2 volume-sales consumer electronics retailers' ratings were upgraded. Their earnings level has risen by stay-at-home demand caused by the COVID-19 pandemic in addition to the previous replacement demand. The rating upgrades on other 2 issuers were brought by the increased importance of their highly creditworthy parent companies as a result of the parent companies' tender offer for them. The 1 issuer that was downgraded is a food service company.

The 3 issuers upgraded in the Electric Power & Gas are all listed infrastructure funds. JCR has evaluated the increased stability of their cash flows based on the enhancement of their portfolios and the operation of their power plants.

The ratings of the 3 issuer in the Construction that were upgraded reflect the strengthening of their business foundations and earnings capacity.

The 3 banks downgraded are all regional banks. Regional banks, whose earnings capacity continues to decline under the prolonged low interest rate environment, have been under downward pressure on their ratings for some time, and this trend has continued in 2020.

The ratings of 2 issuers in the Services were downgraded, as both were directly hit by the COVID-19 pandemic and their earnings capacity significantly declined. Out of these 2 issuers, JCR downgraded twice 1 issuer in travel industry up to 3 notches in total and continues placing Credit Monitor with Negative direction on its rating. The rating outlook for the other issuer in the hotel company remains Negative after the downgrade.

The main features of the rating outlook revisions in the non-manufacturing sector are as follows.

First, in the Retail Trade, outlooks for 2 volume-sales consumer electronics retailers were revised from Stable to Positive in addition to those upgraded. However, volume-sales consumer electronics retailers are exceptional, and the Retail Trade in general has been directly hit by the COVID-19 pandemic, putting strong downward pressure on earnings. As mentioned above, JCR has downgraded the rating of 1 issuer in the food service industry, and revised the rating outlook of 6 issuers to Negative (2 out of these issuers are in the same group).

The same is true for the Air Transportation, where business performance has declined significantly, in terms of the fact that the direct hit of the COVID-19 pandemic is negatively affecting the rating. JCR revised the outlook for 2 issuers to Negative.

As for the Banks, JCR revised the outlook to Negative only 1 regional bank. On the other hand, there were 2 issuers, for which JCR revised the outlook from Stable to Positive, and also 3 issuers, for which JCR revised the outlook from Negative to Stable. In addition to the effects of management efforts, the downward pressure on their ratings has weakened in some cases with growth in lending to support the financing of SMEs due to the COVID-19 pandemic.

In the Real Estate, where there have been many upgrades in recent years, while there was only 1 investment corporation whose rating was upgraded in 2020, JCR revised the outlook to Positive for 4 issuers (2 out of the 4 issuers were investment corporations). The mainstay real estate leasing business continues to perform well, making it easier to foresee financial improvement. While office and residential leases are less susceptible to the COVID-19 impact, JCR revised the rating outlook for 2 issues (investment corporations) mainly investing in hotels, to Negative. As a special case, 1 issuer, whose relationship with the main bank changed with the completion of the tender offer and its financial condition was deteriorating due to loans to the new shareholder, was downgraded three times in total with Credit Monitor.

In the Services as well, JCR revised the rating outlook to Negative for 1 issuer, which focuses on the hotel business as one of its main businesses.

In Public, JCR upgraded 3 issuers (2 of which are in the same group) in consideration of their own improvement of financial structure, etc. in addition to their increasing political significance in the national or a local government.

2 Non-resident Long-term Rating (excluding Japanese corporations)

(1) Sovereign

JCR upgraded the ratings of 3 issuers that are Republic of Indonesia, Republic of the Philippines and Hungary, and downgraded the rating of Republic of Turkey. For Indonesia and the Philippines, JCR valued steady progress in the infrastructure development, while strengthening their fiscal base, and for Hungary, JCR valued the strengthened economic base through the introduction of effective economic policies. The rating outlook on Republic of Turkey remains Negative, taking into account the decline in foreign exchange reserves and concerns over deteriorating economic and fiscal conditions partly due to the COVID-19 pandemic. As for the outlook, the outlooks on United Mexican States, Romania, and Italy were revised to "Negative," reflecting concerns over the economic downturn and fiscal deterioration due to the COVID-19. There were no revisions from Stable to Positive.

(2) Other

JCR downgraded Deutsche Bank AG, whose earnings capacity is expected to remain sluggish for the time being, given the burden of restructuring costs, and Avation PLC, whose cash flow is likely to worsen due to customers' deferral of lease payments and bankruptcies caused by the COVID-19 pandemic. The other 3 upgrades were linked to sovereign ratings.

As for the outlook, JCR revised the outlook to Negative for Renault, whose financial condition is likely to deteriorate due to sluggish auto sales and increased equity method losses caused by the COVID-19 pandemic. JCR also revised the outlooks to Negative for Lotte Shopping Co., Ltd. and Hotel Lotte Co., Ltd., whose business performance is likely to remain sluggish due to the COVID-19 pandemic. In addition, JCR revised the outlooks for Teollisuuden Voima Oyj and Pohjolan Voima Oyj to Negative due to the postponement of the scheduled start of commercial operation of nuclear power plants under construction, which is likely to reduce price competitiveness. There were no revisions from Stable to Positive.

Charts 3 Details of Rating Changes in 2020

▶Resident Rating

<Rating Upgrades>

Release Date	Issuer	Before Change	After Change
Jan. 17	Yasuda Logistics Corporation	BBB+	A-
Jan. 20	ACOM CO., LTD.	A	A+
Feb. 4	Invincible Investment Corporation	A	A+
Feb. 12	Asahi Mutual Life Insurance Company	BBB-	BBB
Feb. 14	Kanagawa Prefectural Housing Supply Corporation	AA	AA+
Feb. 14	Takasago Thermal Engineering Co., Ltd.	A-	A
Feb. 18	PARCO CO., LTD.	#A / Positive	A+
Feb. 25	AIFUL CORPORATION	BB	BB+
Mar. 3	UCS CO., LTD.	A-	A
Mar. 6	KANSAI INTERNATIONAL AIRPORT LAND COMPANY, LTD.	AA	AA+
Mar. 6	NEW KANSAI INTERNATIONAL AIRPORT COMPANY, LTD.	AA	AA+
Mar. 18	HASEKO Corporation	A	A+
Apr. 10	MIZUHO Leasing Company, Limited	A	A+
Apr. 10	MG Leasing Corporation	A	A+
Apr. 10	Mizuho-Toshiba Leasing Company, Limited	A	A+
June 29	ROHTO PHARMACEUTICAL CO., LTD.	A	A+
July 31	Canadian Solar Infrastructure Fund, Inc.	A-	A
Aug. 4	Tokuyama Corporation	A-	A
Aug. 13	TAIHEIYO CEMENT CORPORATION	A-	A
Aug. 21	Kanamoto Co., Ltd.	BBB+	A -
Aug. 27	FamilyMart Co., Ltd.	#A+ / Positive	AA-
Sept. 2	Takara Leben Infrastructure Fund, Inc.	A-	A
Sept. 3	KYOWA EXEO CORPORATION	A	A+
Sept. 17	Japan Earthquake Reinsurance Co., Ltd.	AAp	AA+p
Oct. 12	Tsukishima Kikai Co., Ltd	BBB+	A-
Oct. 15	GIFU SHINKIN BANK	BBB+	A-
Oct. 20	Toyo Tire Corporation	BBB+	A-
Oct. 27	Enex Infrastructure Investment Corporation	A-	A
Nov. 25	OKAYA & CO., LTD.	A-	A
Nov. 26	The Shinkin Guarantee Fund	A	A+
Nov. 27	K'S HOLDINGS CORPORATION	A	A+
Nov. 27	Joshin Denki Co., Ltd.	BBB+	A-

<Rating Downgrades>

Release Date	Issuer	Before Change	After Change
Jan. 16	The Aichi Bank, Ltd.	A+	A
Jan. 24	THE MICHINOKU BANK, LTD.	#BBB+ / Negative	BBB
Mar. 6	H.I.S. Co., Ltd.	A-	BBB+
Mar. 11	NIPPON CHEMI-CON CORPORATION	BBB+	BBB
Apr. 2	The Musashino Bank, Ltd.	A+	A
June 19	NISSAN MOTOR CO., LTD.	A+	A
June 19	NISSAN FINANCIAL SERVICES CO., LTD.	A+	A
Aug. 31	Sanken Electric Co., Ltd.	BBB+	BBB
Sept. 10	UNIZO Holdings Company, Limited	#BBB+ / Negative	#BBB / Negative
Sept. 17	Toho Zinc Co., Ltd.	BBB	BBB-
Sept. 23	Showa Denko K.K.	A	A-
Sept. 30	Kobe Steel, Ltd.	A	A-
Oct. 5	KOBELCO CONSTRUCTION MACHINERY CO., LTD.	A-	BBB+

Oct. 29	H.I.S. Co., Ltd. (2nd time)	#BBB+ / Negative	#BBB- / Negative
Nov. 13	Toyoko Inn Co., Ltd.	BBB	BBB-
Nov. 18	Shinsho Corporation	BBB	BBB-
Dec. 7	Sumitomo Rubber Industries, Ltd.	AA-	A+
Dec. 16	ROYAL HOLDINGS Co., Ltd.	BBB+	BBB
Dec. 21	UNIZO Holdings Company, Limited (2nd time)	#BBB / Negative	#BBB- / Negative
Dec. 28	UNIZO Holdings Company, Limited (3rd time)	#BBB- / Negative	#BB+ / Negative

►Non-Resident Rating

<Rating Upgrades>

Release Date	Issuer	Before Change	After Change
Jan. 31	Republic of Indonesia	BBB	BBB+
Jan. 31	Perusahaan Perseroan (Persero)	BBB	BBB+
Feb. 21	Hungary	BBB+	A-
Feb. 21	National Bank of Hungary	BBB+	A-
June 11	Republic of the Philippines	BBB+	A-
June 12	Security Bank Corporation	BBB+	A-

<Rating Downgrades>

Release Date	Issuer	Before Change	After Change
Mar. 6	Deutsche Bank AG	Ap	A-p
Apr. 9	Avation PLC	BB	#BB- / Negative
Apr. 10	Republic of Turkey	BBB-	BB+
Apr. 23	Avation PLC (2nd time)	#BB- / Negative	#B / Negative

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