

Sumitomo Mitsui Construction Revised FY2021 Earnings Forecast—No Immediate Impact on Rating; JCR Will Watch Future Profit and Financial Recovery

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by Sumitomo Mitsui Construction Co., Ltd. (security code: 1821) of its revisions to the earnings forecasts for the fiscal year ending March 2022.

- (1) Sumitomo Mitsui Construction Co., Ltd. (the "Company") announced today its earnings forecast revisions for the fiscal year ending March 2022 (FY2021). The revised forecasts are an operating loss of 8.3 billion yen (a profit of 18.5 billion yen in the previous forecast) and a net loss attributable to owners of the parent company of 9 billion yen (an income of 10 billion yen in the previous forecast). This is due to the following factors: (i) the Company will post a loss of approximately 20 billion yen, including a provision for losses on construction contracts, due to deteriorating profitability of large-scale construction projects in Japan; (ii) construction projects are not progressing as expected due to delays in the timing of orders; and (iii) sales at overseas subsidiaries are expected to decline due to the expansion of the COVID-19 pandemic.
- (2) JCR believes that the main reason for the revisions to the forecasts is temporary related to large-scale construction work, and therefore, there is no need to immediately revise the rating with this revision. However, if the Company incurs additional losses on the above-mentioned large-scale construction projects, or if it is unable to steadily obtain orders to recover profit in the future, it will not be able to restore its impaired equity capital, which will put further downward pressure on its rating. In addition, the Company has received a claim for damages from a client due to a problem with piling work in a condominium. If the Company has to pay a large amount of damages without realizing a recovery in profit, financial risks are likely to increase, and more attention should be paid to the progress of the dispute.

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<Reference>

Issuer: Sumitomo Mitsui Construction Co., Ltd.

Long-term Issuer Rating: A- Outlook: Stable

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