

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 23-D-1690 through 23-D-1692 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")). Profit levels for all three companies have declined compared to the boom period (fiscal year ended March 2017 (FY2016) to FY2020). This is mainly due to large-scale unprofitable construction projects in the building construction business. On the other hand, the civil engineering and real estate businesses have been performing well, and the profitability of new orders in the building construction business is improving. Therefore, while the timing of profit recovery may vary from company to company, their profits are expected to gradually improve. In addition, all three companies maintain the sound financial bases they built during the boom period. Even taking into account their future growth investments and shareholder return policies, soundness of their financial foundations is expected to be maintained over the medium term. Based on the above, JCR has affirmed the long-term issuer ratings on the three companies with Stable outlook.
- (2) Although the timing differs slightly from company to company, deterioration in profitability of the building construction business is common among the three companies. This is mainly due to the following reasons: (i) they have been unable to fully pass on the higher material and labor costs to customers for large-scale private-sector building construction projects for which they received orders (including those for which they obtained preferential negotiating rights) during a period of intense competition, and (ii) unexpected circumstances have arisen during construction, requiring them to redo work or extend construction periods. Since these unprofitable construction projects are large in scale and require time for delivery, a full-fledged recovery in profitability for the three companies is unlikely over the next one to two years. However, since the profitability of new orders is improving in the building construction business, which has been sluggish, JCR assumes that profitability will recover on a full scale once the delivery of unprofitable construction projects ends.
- (3) The three companies have increased their equity capital while reducing interest-bearing debts during the boom period, and their financial bases are currently sound. In recent years, advances paid for construction projects have increased due to an increase in large-scale construction projects that require time to recover the funds, and their net interest-bearing debt has increased as a result. However, the net interest-bearing debt of the three companies is within the scope of the advances paid for construction projects, and their net interest-bearing debt is expected to decrease as funds are collected after the delivery of construction projects. In addition, although all three companies have recorded extraordinary losses in the past, including large write-downs and losses on sales, majority of their present assets are sound and their financial risks are low.

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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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