

Highlights of Major General Construction Companies' Financial Results for Fiscal Year Ended March 2022

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of Japan's four major general construction companies (collectively, the "Companies"): TAISEI CORPORATION (security code: 1801), OBAYASHI CORPORATION (security code: 1802), SHIMIZU CORPORATION (security code: 1803) and KAJIMA CORPORATION (security code: 1812).

1. Industry Trend

According to the Current Survey on Orders Received for Construction, the combined value of orders received for domestic construction by Japan's 50 major general construction companies for FY2021 remained at a high level, growing 1.5% over the year, to 14,735.0 billion yen, topping 14 trillion yen for the sixth consecutive year. While orders in the public-sector construction dropped 14.2%, due to a backlash from the substantial increase in the previous fiscal year, to 3,349.6 billion yen, the private-sector construction increased 8.2% over the year to 10,092.6 billion yen due partly to receiving orders for large scale redevelopment projects.

JCR views the combined value of orders received for domestic construction by Japan's 50 major general construction companies will also likely be steady over the medium-term. For the public works, constructions for meeting the requirements of the building national resilience, taking necessary actions for the aging of infrastructures and others can be expected. For those in the private sector, a large number of constructions can also be expected such as redevelopment projects in the central Tokyo, logistics facilities, plants relating to semiconductors / electronic devices, among others, and construction of condominiums is also expected to be steady.

While the order volume is expected to be at a high level as mentioned above, profitability has been declining for private-sector constructions. This is attributable to the impacts of rising construction material prices such as steel materials and ready-mixed concrete in addition to intensified competitions centering on large scale projects. Reflection the matters learned from the deteriorated performance in FY2021, harshness in the competitions has gradually been alleviated; however, full-scale recovery in profitability of private-sector constructions will take time given the low profitability of order backlogs and trends in material prices, JCR's view. Meanwhile, there have been no particular changes in profitability of public-sector constructions since the terms of contract include a clause, which allows parties performing construction work to pass on rising costs such as material and labor costs to customers for public works.

In addition, the restriction on the maximal hours workers can perform overtime work will be implemented in the industry since April 2024. In the industry, labor input will be a factor constraining the net sales, JCR has been watching whether the companies in the industry will be able to reduce the degree of impact through expansion of human resource including that of partner companies, measures for increasing productivity, etc.

2. Financial Results

For FY2021, the Companies' combined value of construction business orders on a non-consolidated basis increased 3.7% over the year to 5,316.0 billion yen. By company, OBAYASHI and SHIMIZU increased while TAISEI and KAJIMA decreased, with a decrease of around 5% over the year. This suggests the orders received was relatively steady.

For FY2021, consolidated net sales of the Companies combined increased 6.3% over the year to 7,028.5 billion yen, first increase in two fiscal years, and consolidated operating income declined 36.5% over the year to 305.4 billion yen, falling two years in a row. All of the Companies increased sales and decreased income, and it was the first time that the combined operating income fell below 400 billion yen since FY2014. Negative factors include: i) many of the contracted large-scale projects being in the initial phase, which means that only a few can be fully included in net sales of completed construction contracts; gross profit on completed construction contracts; ii) profitability constructions, centering on private large-

scale projects are on decline; and iii) being affected by rising construction materials. By company, mixed results were observed for two companies, KAJIMA, which ensured almost the same profit as the previous fiscal year supported the development business, and TAISEI, which steadily secured steady profit in the construction business as opposed to the other two companies, OBAYASHI and SHIMIZU, which recorded a large amount of provision for loss for large-scale projects.

The Companies' simple arithmetic average of gross profit margin on completed construction contracts on a non-consolidated basis declined 5.0 percentage points over the year to 8.5% for FY2021. By segment, civil engineering stood at 16.3%, down 4.1 percentage points over the year, and building construction stood at 6.3%, down 5.0 percentage points over the year. Civil engineering decreased the profit margin due to a backlash from FY2020, in which a large number of additional constructions and changes in designs were acquired; however, it still maintained a high profit margin, which was in middle of 10% range. As for building construction, the profit margin declined for all of the Companies. Particularly the profit margins were low at a low single digit for OBAYASHI and SHIMIZU, which were strongly affected by large-scale unprofitable constructions.

On the financial front as of the end of FY2021, equity capital showed a year-on-year growth for all of the Companies thanks to an increase in retained earnings, etc. Meanwhile, equity ratio was almost flat or showed a slight decline due to progress in investment for development and enhancement of returns to shareholders such as increasing dividends and purchase of own shares. In addition, SHIMIZU and KAJIMA, which increased investment in development of office buildings, logistics facilities, etc., have been increasing net interest-bearing debt. Therefore, JCR will watch whether they can constantly recover the investments hereafter. Contrarily, TAISEI have been constantly mainlining the substantially debt-free position and OBAYASHI has a small amount of net interest-bearing debt.

3. Highlights for Rating

The Companies' combined projection for construction business orders on a non-consolidated basis for FY2022 is to decrease 0.3% over the year to 5,300.0 billion yen, which is almost flat from the previous fiscal year. Since a reasonable amount of construction can be expected both for private and public sectors, orders received will likely be at a high level. On the other hand, prices of construction materials are rising. Therefore, JCR pays attention to whether the Companies will be able to win orders while ensuring appropriate margins for the private-sector constructions.

Consolidated net sales and operating income of the Companies combined are expected to be 8,080.0 billion yen, up 15.0% over the year, and 376.5 billion yen, up 23.3% over the year, respectively, indicating an increase in sales for the second consecutive fiscal year and an increase in profit for the first time in two fiscal years. Both the net sales of completed construction contracts and gross profit on completed construction contracts are expected to increase as the progress in projects accelerates. By company, steady profits can be continuously expected for TAISEI and KAJIMA. For OBAYASHI and SHIMIZU, which reported a substantial decrease in profit for FY2021 due to the impact of unprofitable constructions, their profits will likely recover to a reasonable level.

For FY2022, stable profits are expected for all of the Companies, and a sound financial structure to be maintained. Despite the fact, SHIMIZU and KAJIMA project to increase interest-bearing debt by around 150 billion yen - 200 billion yen as they are advancing investments. JCR will pay attention to whether they can maintain the financial discipline while recovering investments over the medium to long term.

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(Chart 1) Business Performance of Four Major General Construction Companies

(JPY 100 mn)

	FY	Construction Business Orders	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
TAISEI (1801)	2020	12,835	14,801	1,305	1,359	925
	2021	12,340	15,432	960	1,032	714
	2022F	14,100	18,000	970	1,000	670
OBAYASHI (1802)	2020	15,091	17,668	1,231	1,287	987
	2021	15,112	19,228	410	498	391
	2022F	13,200	20,500	1,000	1,040	760
SHIMIZU (1803)	2020	11,307	14,564	1,001	1,054	771
	2021	14,200	14,829	451	504	477
	2022F	12,500	19,600	715	700	515
KAJIMA (1812)	2020	12,053	19,071	1,272	1,397	985
	2021	11,508	20,796	1,233	1,521	1,038
	2022F	13,200	22,700	1,080	1,220	850
Total	2020	51,286	66,104	4,809	5,097	3,668
	2021	53,160	70,285	3,054	3,555	2,620
	2022F	53,000	80,800	3,765	3,960	2,795

* Construction Business Orders is on a non-consolidated basis.

Source: Prepared by JCR based on financial materials of above companies

(Chart 2) Gross Profit Margin on Completed Construction Contracts (non-consolidated)

(%)

	FY	Gross Profit Margin on Completed Construction Contracts	Civil Engineering	Building Construction
TAISEI (1801)	2020	14.7	21.3	12.4
	2021	11.3	20.2	8.5
	2022F	9.7	18.1	7.4
OBAYASHI (1802)	2020	13.3	20.2	11.2
	2021	5.9	13.8	3.6
	2022F	9.8	13.8	8.7
SHIMIZU (1803)	2020	12.3	24.6	8.7
	2021	5.2	14.7	2.8
	2022F	6.6	10.2	5.9
KAJIMA (1812)	2020	13.6	15.5	12.7
	2021	11.7	16.5	10.3
	2022F	10.0	15.2	8.5
Average	2020	13.5	20.4	11.3
	2021	8.5	16.3	6.3
	2022F	9.0	14.3	7.6

Source: Prepared by JCR based on financial materials of above companies

(Chart 3) Financial Indicators

(JPY 100 mn, %)

	FY	Equity Capital	Interest-bearing Debt	Net Interest-bearing Debt	Equity Ratio
TAISEI (1801)	2020	8,408	2,190	-2,752	44.9
	2021	8,688	2,243	-2,747	44.4
	2022F	-	2,250	-	-
OBAYASHI (1802)	2020	9,310	2,659	30	41.0
	2021	9,556	2,804	94	39.5
	2022F	-	3,500	-	-
SHIMIZU (1803)	2020	8,152	4,226	1,463	42.7
	2021	8,244	4,951	2,080	38.7
	2022F	-	Within 6,800	-	-
KAJIMA (1812)	2020	8,748	3,170	90	40.4
	2021	9,457	3,599	864	40.5
	2022F	-	5,000	-	-
Total	2020	34,618	12,245	-1,169	-
	2021	35,945	13,597	291	-
	2022F	-	-	-	-

Source: Prepared by JCR based on financial materials of above companies

<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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