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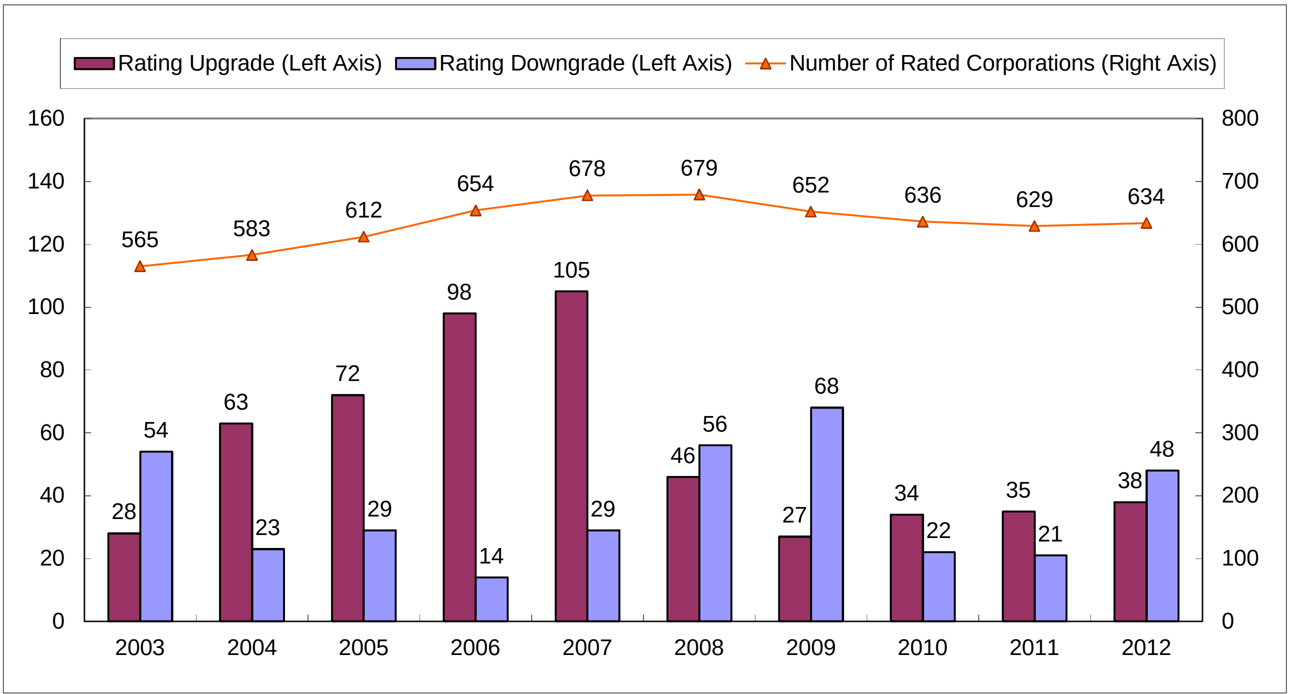
JCR's Rating Results for 2012

Japan Credit Rating Agency, Ltd. (JCR) has put together all the rating results for 2012. The number of long-term ratings assigned at the end of 2012 is 634 residents, which increased from the number for 2011 by 5 issuers. The increase in number was the first time in four years. While there were rating withdrawals owing to worsened business performances or declines associated with mergers and management integrations, there were movements towards issuers' choosing among credit rating agencies or changing their credit rating agencies. As a result, the number of issuers assigned by JCR increased.

The number of rating changes is divided into rating upgrades for 38 issuers (35 issuers for 2011) and rating downgrades for 48 issuers (21 issuers for 2011). The number of rating downgrades exceeded the number of rating upgrades for the first time in three years (Chart 1: One count for multiple rating changes a year). The characteristic change for 2012 is that the number of downgrades has increased significantly from a year ago. When counting one for multiple rating changes, the number of rating upgrades and rating downgrades are 38 and 58, respectively. Excess of rating downgrades over rating upgrades is clearer.

Chart 1. The Number of Rated Issuers and Rating Changes (Long-term Ratings for Residents)



Note 1. One count for multiple rating changes a year.
2. The counted issuers are issuers, to which JCR assigned the long-term ratings. The government bonds, guaranteed bonds except those of holding companies and structured finance are excluded from the counts.

The primary industries JCR downgraded for 2012 were 9 issuers of financing business such as Securities and Insurance (6 issuers for 2011), followed by 8 issuers for Electric Power & Gas (electric power companies) (9 issuers for 2011), 6 issuers for Electric Appliances (2 issuers for 2011), and 4 issuers of Iron & Steel and Glass & Ceramics Products, respectively (0 for 2011, respectively). Meanwhile, the industries JCR upgraded for 2012 were 13 issuers of financing business such as Banks and Other Financing Business (12 issuers for 2011), followed by 4 issuers for Wholesale Trade, Retail Trade and Real Estate, respectively (4, 3 and 1 issuers for 2011, respectively), and 3 issuers for Services (1 issuer for 2011) (Chart 2).

Rating downgrades for Electric Appliances and Iron & Steel, which suffered from decline in sales and market slump reflecting economic trends both in Japan and abroad, were striking. In addition, the fact that the number of rating downgrades for electric power companies, for which management environment is worsening significantly owing to confusion of the Japanese government energy policy, was large for 2012 following 2011, is also characteristic for 2012. Rating upgrades, on the other hand, were striking only in some Retail Trade companies, which retain high competitive strengths thanks to their unique business models, except rating upgrades for financial institutions for specific reasons. While both rating upgrades and rating downgrades were striking for Real Estate (4 issuers and 3 issuers, respectively), these upgrades and downgrades are due primarily to rating changes associated with reorganization and adoption of top-down approach.

Breakdown of rating changes for 2012 by quarters shows that excess of rating upgrades over rating downgrades in number was seen only in the 3rd quarter (from July through September) and that rating downgrades exceeded rating upgrades during the 1st, 2nd and 4th quarters. It should be also pointed out that rating downgrades have begun to increase toward the end of the year (since November) where a sense of recession has intensified. It will take time for effects from growth strategy by the new administration to be materialized. In addition, despite the fact that there are signs of recovery in a part of external demand, it will be next year or after next year for the recovery to be reflected in domestic corporate earnings as actual results at the earliest. For this reason, JCR assumes that JCR's rating conditions of 2013 will remain similar to those in 2012 during the first half of the year at least.

Chart 2. Rating Upgrade/Downgrade by Industry

Industry	2009		2010		2011		2012	
	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade	Upgrade	Downgrade
Foods	5		2		1		1	
Textiles & Apparels		1	1					
Pulp & Paper					1	1		2
Chemicals	1	1		2	4		1	1
Pharmaceutical								
Oil & Coal Products		1	1					3
Rubber Products							1	
Glass & Ceramics Products		3		1			1	4
Iron & Steel		1		1			1	4
Nonferrous Metals		2	1					
Metal Products		1		1			1	1
Machinery	1	1	3					1
Electric Appliances	2	4	3		1	2		6
Transportation Equipment	1	5		1	3			
Precision Instruments								
Other Products		2	1					
Total for Manufacturing Industry	10	22	12	6	10	3	6	22
Construction		1	1		1		1	2
Electric Power & Gas						9		8
Land Transportation	1	1					1	1
Marine Transportation				2		2		1
Air Transportation		2		2				
Warehousing & Harbor Transportation Services								
Information & Communication	3	3	1	1	2		2	
Wholesale Trade	2		1		4		4	1
Retail Trade	2	1	4	2	3		4	1
Banks	2	13	11	3	8	3	6	2
Securities & Commodity Futures		3		2		2	1	3
Insurance		8	2		3	1		4
Other Financing Business	4	6	1	2	1		6	
Real Estate	1	7		1	2		4	3
Services	2	1	1	1	1	1	3	
Total for Non-manufacturing Industry	17	46	22	16	25	18	32	26
Total	27	68	34	22	35	21	38	48
FILP Agency								

Note 1. One count for multiple rating changes a year.
2. Real Estate includes J-REIT.

The domestic economy that has been boosted by internal demand in the first half of 2012 such as post-earthquake reconstruction demand and subsidy fell into negative growth during the 3rd quarter (from July through September) for the first time in three quarters owing to slowdown in overseas economies and diplomatic problems with neighbor countries as well as termination of subsidy. As evidenced by the fall, an appearance of recession has intensified towards the end of the year. In particular, in addition to weakened domestic demand because of removal of effects of policies such as eco-car subsidy owing to termination of the subsidy in September, rapid deterioration in relationship between Japan and China and rapid slowdown in exports touched off by the Senkaku Islands issue caused a scenario of economic recovery by the Japanese government initially, which is covering losing momentum of internal demand by recovery of external demand, to become derailed. Persistent appreciation of yen in recent years and slumping business of electric appliances industry, one of Japan's core industries, which was striking this year, have cooled mind of corporate management and consumer sentiment further.

While there were optimistic scenarios for FY2012 (April 2012 through March 2013) corporate earnings at the beginning of the fiscal year, there have been increasing trends for downward revisions of earnings forecasts as the months went by because of confusion of domestic politics as well as the above factors both in Japan and abroad. The forecasted ordinary income by listed companies for FY2012, which was an increase by about 20% at the beginning of the fiscal year, was revised downward successively. The forecasted ordinary income for FY2012 will end up with a single-digit increase (5% approximately) after going through the first half of the fiscal year (from April through September). Degree of the downward revision for the first half of the fiscal year is considered the 2nd highest after that of such revision immediately after Lehman Shock. There also remains a likelihood of other downward revisions.

Primary reason for the downward revision is slumping manufacturing industry. A double oppression ailing manufacturing industry consists of "poor sales" and "market slump." Typical examples include intensified global competition of digital home appliances products, Electric Appliances industry suffering higher yen and suffering Japanese brand cars in Chinese automobile market, which has grown into the largest market in the world. In addition, Japanese main material industries such as Iron & Steel and Chemicals, in which cheap price offensive by material manufacturers in emerging countries is becoming obvious under circumstances where demand for materials is declining against the background of economic slowdown worldwide, are being affected negatively to a large extent equally. Impact on non-manufacturing industries such as related Marine Transportation and trading companies is also not small. Industries, for which earnings are relatively robust, are limited to only small proportions of service industries including Retail Trade and leisure, which benefited from reactionary increase from thrift after quake, and communications thanks to changes to life styles of people. This fact is also a characteristic of 2012.

Under the new administration centered on the Liberal Democratic Party that was inaugurated as a result of House of Representatives election victory, many people hope "recovery of economy" overwhelmingly. Owing to remarks among leaders of the new ruling parties, markets have already begun to factor in expected value of the new administration to a large extent. For this reason, if reality differs from this expected value or if its feasibility becomes doubtful, negative effects on manager and consumer sentiments will become larger than that time.

Chart 3. Rating Distribution by Rating Category

Rating	2009		2010		2011		2012	
	Issuers	Ratio	Issuers	Ratio	Issuers	Ratio	Issuers	Ratio
AAA	25	3.8%	25	3.9%	16	2.5%	15	2.4%
AA	112	17.2%	116	18.2%	125	19.9%	126	19.9%
A	291	44.6%	288	45.3%	298	47.4%	306	48.3%
BBB	209	32.1%	199	31.3%	186	29.6%	181	28.5%
BB	7	1.1%	6	0.9%	3	0.5%	4	0.6%
B	2	0.3%	0	0.0%	0	0.0%	0	0.0%
CCC to C	2	0.3%	1	0.2%	1	0.2%	1	0.2%
D	4	0.6%	1	0.2%	0	0.0%	1	0.2%
Total	652	100.0%	636	100.0%	629	100.0%	634	100.0%

There have been no larger changes to the Rating Distribution by Rating Category (Chart 3) for 2012 compared with that for 2011. This is because although many electric power companies were downgraded altogether 2011 owing to nuclear accidents occurred in March of 2011 and similar trends continued for 2012, rating levels after their rating changes remained in the same rating category as before. The ratios of each category are 2.4% for AAA (down by 0.1%), 19.9% for AA (up by 0.0%), and 48.3% for A (up by 0.9%). While rating category of BBB dropped relatively significantly by 1.1% to 28.5%, rating categories of BB and below BB increased only by 0.3% to 0.9%, respectively. This is because while issuers with lower rating levels in the BBB rating category were downgraded to BB rating or lower, such ratings were withdrawn following the downgrades, in addition to shift to the A rating category from BBB rating category.

The number of listed companies failures for 2012 was 6. The number increased for the first time in 4 years, up from 4 for 2011. The number, however, remains low compared with 33 for 2008, 20 for 2009 and 9 for 2010. On the other hand, total debt amount for 2012 exceeded 500 billion yen, significantly increasing from a little more than 40 billion yen for 2011. Impact of Elpida Memory, Inc., which was the largest bankruptcy as a manufacturing company ever recorded in the past (with total indebtedness amounting 448 billion yen), is large.

Issuers JCR rated, for which their ratings fell into D rating (JCR judges that all the obligations are in default) or LD rating (JCR judges that a part of obligations is in default) are two issuers: Elpida Memory, Inc. (in February) and Covalent Materials Corporation (in October), respectively.

(Information Services Department)

Japan Credit Rating Agency, Ltd.
Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026