

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 24-D-1838 through 24-D-1840 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")). In recent years, the three companies' profits had weakened due to their inability to pass on the rising cost of construction for large-scale domestic building construction projects to their clients. However, due to improvements in the supply-demand balance and thorough selection of orders, profitability of projects on hand at the time of order receipt has been steadily improving, and it is thought that profits will gradually recover. In addition, the three companies have maintained the sound financial bases they built during the boom period. Although they are strengthening their growth investments and shareholder returns, they will maintain their financial bases at the current level over the medium term, as their solid financial management is expected to continue. Based on the above, JCR has affirmed the long-term issuer ratings on the three companies with Stable outlook.
- (2) The most recent bottom in operating income is thought to have been in the fiscal year ended March 2022 (FY2021) for OBAYASHI and in FY2023 for TAISEI and SHIMIZU. The difference in the timing of the bottom among the companies is due to the difference in the timing of the recording of large provisions for loss on construction contracts due to factors such as rising construction prices. The net sales of completed construction contracts are recorded for the construction projects, which have become unprofitable with provision for loss on construction contracts recorded, as the projects progress, but the profits become zero (and in some cases additional losses are recorded). Therefore, unless the percentage of unprofitable works in the net sales of completed construction contracts decreases due to factors such as delivery, a full-scale recovery in profits will not be achieved. Considering the current status of progress for unprofitable construction work, JCR assumes that the three companies will steadily recover their profits, although there will be differences in timing among the three companies.
- (3) The three companies have built a sound financial base during the boom period, and there are no particular concerns about their current financial bases. Even Shimizu Corporation, which posted its first operating loss for FY2023 since it was listed, maintained a net income by selling off real estate developed and cross-held shares, and its financial base was not damaged. In recent years, as construction projects have become larger, the three companies have had to bear a greater burden of covering and paying the cost of construction in advance, and their interest-bearing debt has increased, resulting in slight deteriorations in the financial indicators such as the equity ratio and DER. However, as funds are recovered after work is completed and delivered, and interest-bearing debt decreases, it is thought that financial indicators will improve once large-scale construction projects have been completed. In addition, as part of their growth investments, there have been moves to acquire construction-related companies in Japan and overseas, but so far the impact of these acquisitions on the three companies' financial bases has been limited.

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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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