R&I View: Rating Impact of Coronavirus

The global spread of the novel coronavirus is affecting corporate performance materially. With more countries and regions imposing entry and activity restrictions, it is difficult to predict when the coronavirus will be brought under control. Amid the economic downturn and turmoil in the financial markets, earnings declines will be inevitable for many companies and this may cause deterioration in their financial positions.

Japanese companies have been working to strengthen their earnings and financial bases, overcoming the crisis periods that followed the collapse of Lehman Brothers and the Great East Japan Earthquake. Many of the Japanese companies rated by R&I possess sound financial bases backed by ample cash on hand and equity capital. Furthermore, domestic banks and other financial institutions on the whole have capacity to support corporate financing, with the Japanese government and the Bank of Japan expressing their willingness to provide assistance. These factors would underpin the creditworthiness of those companies. If the impact of the coronavirus outbreak is likely to come under control within a few months, rating downgrades directly resulting from the issue would be limited, in R&I's view.

The impact of the spread of the coronavirus varies significantly by industry and operating region. The automobile industry is facing disruptions in supply chains, and stagnation of the global economy and deterioration in the loan markets tend to directly translate into weak sales. Major restrictions on people's movement will deal a severe blow to the performance of the air transport industry. There is also a concern about influence on industries that have been benefiting substantially from inbound tourists' demand. Furthermore, regardless of industry, companies will be affected more seriously if a large proportion of their earnings come from countries and regions where the coronavirus widely spreads and they have a substantial amount of assets in these areas. Japanese companies have been increasingly dependent on earnings from overseas markets, which has made them more susceptible to trends in the global economy and financial markets. This warrants attention.

Because resilience to recessions differs greatly from company to company, R&I will carefully examine developments in each company's creditworthiness. Some companies would have their ratings downgraded, if their earnings and financial bases worsen to levels insufficient for their ratings and it becomes more likely that recovery will take a long time. Downward rating pressure will mount easily, especially for companies with weak earnings and financial bases whose funding capabilities are of concern. Ratings will highly likely be maintained, on the other hand, should companies sustain core businesses' competitiveness and sound financial bases even when earnings fall temporarily owing to the stagnant economy.

If the impact of the coronavirus outbreak grows further and is not expected to subside in 2H 2020 and thereafter, more industries and companies could see a decline in their creditworthiness. As the situation is changing day by day, R&I will keep an eye on how it develops. Even if the number of infected people decreases in each country and region, concern about downward pressure on creditworthiness may remain over the medium to long term, if normalization of people's movement and consumption, as well as supply chain recovery, takes considerable time.

As regards sovereigns, R&I will pay attention to the implications of the coronavirus for the economy and fiscal position of each country and region. Ratings for some structured finance products may be affected primarily by deterioration in the creditworthiness and performance of underlying assets, if the coronavirus continues to spread for a prolonged period of time.

R&I's rating determination and monitoring are premised on its timely access to the information necessary for analysis of creditworthiness that is obtained mainly through research into issuers and publicly available data. R&I will strive to provide ratings appropriately and continuously, even if it faces difficulties in obtaining information or conducting some of its activities.