

Sep 26, 2019

R&I Affirms BBB, Stable: Daido Metal Co., Ltd.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Daido Metal Co., Ltd.
Issuer Rating: BBB, Affirmed
Rating Outlook: Stable

RATIONALE:

Daido Metal Co., Ltd. is a global manufacturer of plain bearings, which are important parts of engines, and its earnings base is relatively robust. The company has a stable business relationship with major customers at home and abroad and a very large share in the supply of the parts to many Japanese automakers. It satisfies strict quality requirements from customers by capitalizing on high manufacturing technologies in each process ranging from manufacturing of bimetal to precision processing and to surface treatment.

Automotive demand is sluggish due in part to the U.S.-China trade friction, suggesting that a short-term deterioration in profitability is unavoidable. Nevertheless, the need to respond to tighter environmental regulations will increase the burden of manufacturing engines. Customers are expected to continue to require bearings that can withstand use under even harsher conditions. Because of this, as well as safety reasons, Daido Metal's competitive advantage, which is backed by its long-standing track record in supplying high-quality products, will likely remain intact. R&I expects the company to maintain a comparatively sound earning capacity.

Earnings from the companies acquired through M&A are improving. Eyes will be on whether Daido Metal is able to increase their earnings contributions by, for example, providing the Daido Metal Group's production and sales know-how, optimizing their manufacturing and sales bases and launching new businesses.

The balance between net debt and cash flow and the debt-equity structure are at the levels required for the rating partly because the company expanded its equity capital through public offerings. Going forward, additional funds may be required for strategic investments to launch new businesses as well as for capital investments to maintain competitive strength in existing businesses. To improve the creditworthiness, it will be essential to expand the scale of profits and cash flow and thereby strengthen a financial base.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "Automobile Components". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER: Daido Metal Co., Ltd. (Sec. Code: 7245)
Issuer Rating
RATING: BBB, Affirmed
RATING OUTLOOK: Stable

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