

China Consumer Products And Retail: Dark Clouds Linger For Longer

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S&P Global
Ratings

This report does not constitute a rating action

Agenda

- Key Takeaways
- Recap 2021 & Outlook for 2022
- Negative Outlook Cases
- Positive Outlook Cases
- ESG Credit Indicator

Key Takeaways

- Our outlook has a bigger negative tilt going into 2022 than a year ago.
- Multiple headwinds weigh on credit profiles:
 - Macro challenges include slowing real estate markets and zero-COVID policy.
 - Regulatory restrictions can hit topline, profitability, cash flows, and the funding environment.
- Margins unlikely to recover to pre-COVID levels over the next 24 months.
- About 40% of rated portfolio's gross debt is due within 12 months.
- Fundraising activities in the past 24 months boosted liquidity; we expect active deployment in 2022.
- We have negative ratings outlooks on: Haidilao, Li & Fung, Meituan, Melco Resorts/Studio City, and Yili.
- Positive outlooks: JD.com, Zhongsheng.

Recap 2021 & Outlook 2022

Negative Outlook Bias Remains Into 2022

- Negative actions were largely driven by delays in recovery and/or growing expansion appetite.
- Negative outlooks increased to 26% of our coverage in 2021, compared with 22% in end of 2020.

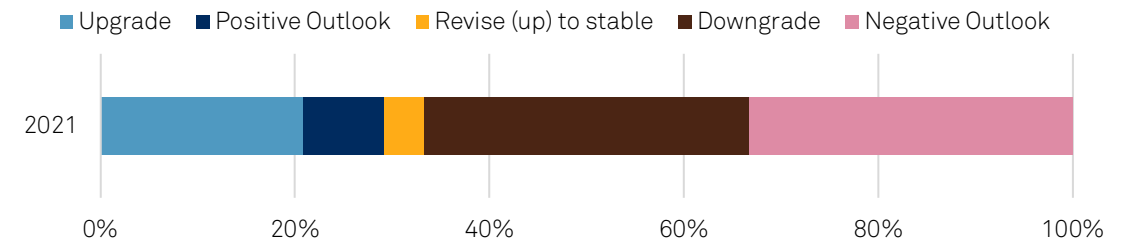
Notable Rating Actions in 2021

	From	To	Date
Negative actions			
Meituan	BBB-/Stable/--	BBB-/Negative/--	Apr 1, 2021
Li & Fung	BBB/Negative/--	BBB-/Stable/--	Apr 12, 2021
	BBB-/Stable/--	BBB-/Negative/--	Dec 23, 2021
Haidilao International Holding Ltd.	BBB/Stable/--	BBB/Negative/--	Aug 31, 2021
Melco Resorts (Macau)	BB/Negative/--	BB-/Negative/--	Oct 13, 2021
Studio City	BB-/Negative/--	B+/Negative/--	Oct 13, 2021
Inner Mongolia Yili Industrial Group	A-/Stable/--	A-/Negative/--	Nov 2, 2021
Positive actions			
JD.com Inc.	BBB/Positive/--	BBB+/Positive/--	Mar 24, 2021
Zhongsheng Group Holdings Ltd.	BBB-/Stable/-	BBB-/Positive/-	Aug 30, 2021
Tingyi (Cayman Islands) Holding Corp.	BBB+/Positive/--	A-/Stable/--	Sep 6, 2021
Midea Group Co. Ltd.	A-/Positive/--	A/Stable/--	Nov 15, 2021

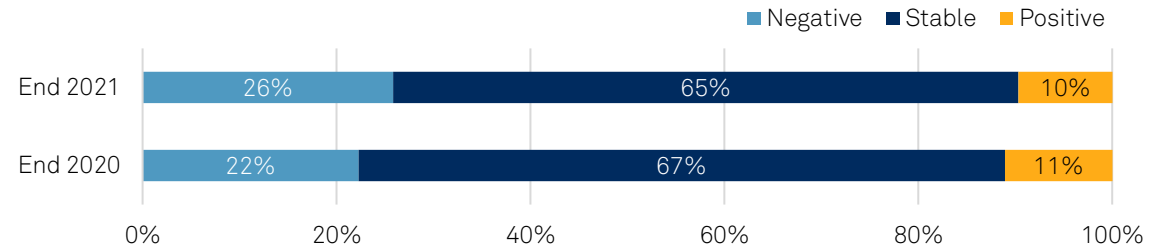
Source: S&P Global Ratings.

Rating Actions Trend In 2021

Two-Thirds Of Actions Taken Were Negative



Outlook Distribution



Source: S&P Global Ratings.

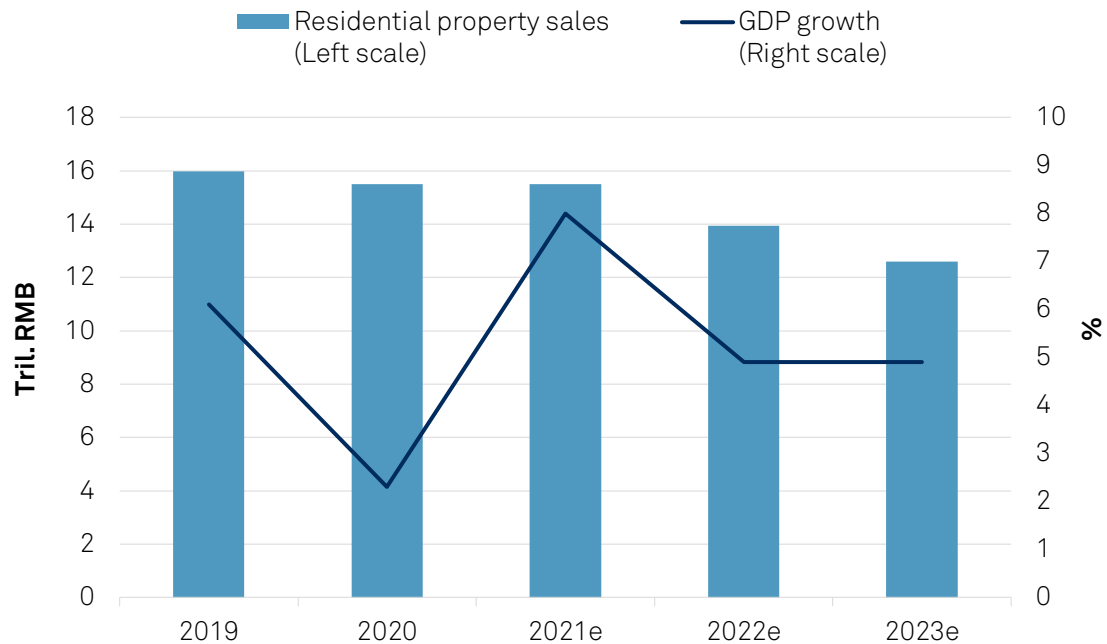
Multiple Macro Headwinds Weigh On Credit Profiles

Increased benefits	Compliance costs	Data privacy	Strong RMB	Weak property market
Higher raw material costs	Funding environment	Regulations	Geopolitical tensions	Zero-COVID policy
Supply chain disruptions	Common prosperity	Unemployment	Expected behaviors	Population outlook

Dark Clouds In China's Consumer Sectors

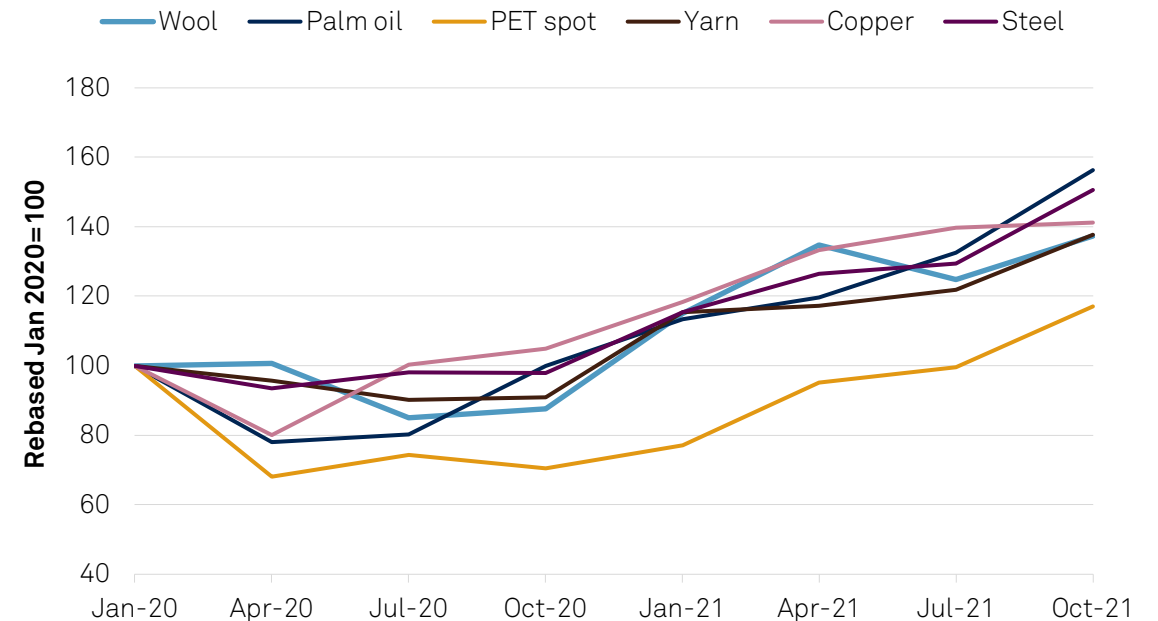
- Weakness in real estate market and zero-COVID policy in China are tough on sentiment and would sap consumer spending.
- Companies face margin pressures from higher input costs such as raw materials, social, electricity and transportation versus pre-COVID.

Two Consecutive Years Of Residential Sales Contraction



Tril.--Trillion. e--Estimates. RMB--Chinese renminbi. Source: Wind, S&P Global Ratings.

Soaring Input Costs For Corporates

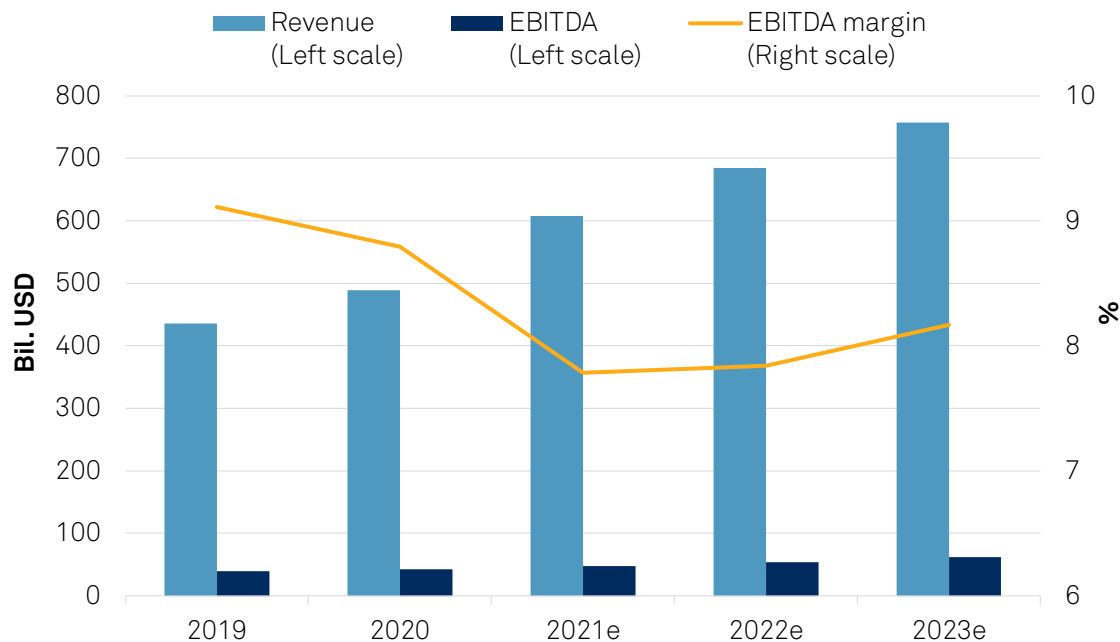


Source: Wind, S&P Global Ratings.

EBITDA Growth Lags Revenue Growth

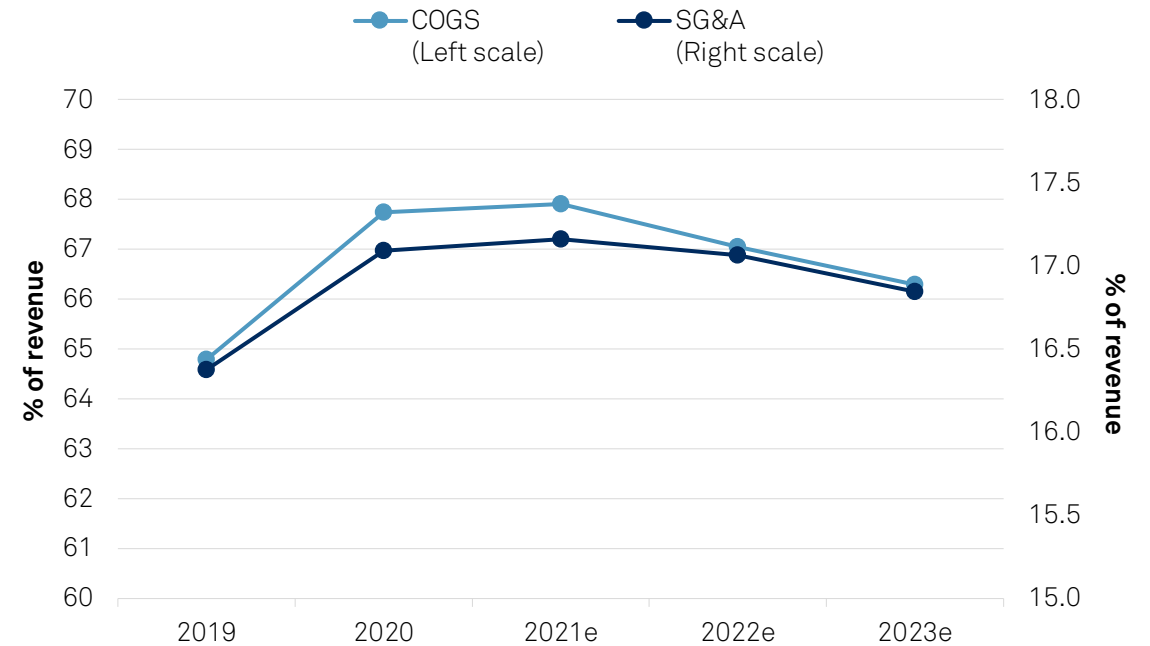
- Rated consumer companies to see 10%-15% revenue growth in 2022, down from 20%-25% in 2021. Downward revision risk is rising.
- Cost structure to improve starting from 2022 but margins to stay below pre-COVID levels in the next 24 months on higher costs and investments.

EBITDA Posts Modest Growth As Costs Build



Bil.--Billion. e--Estimate. Source: S&P Global Ratings.

Profitability Hurt By Input And Operations Costs

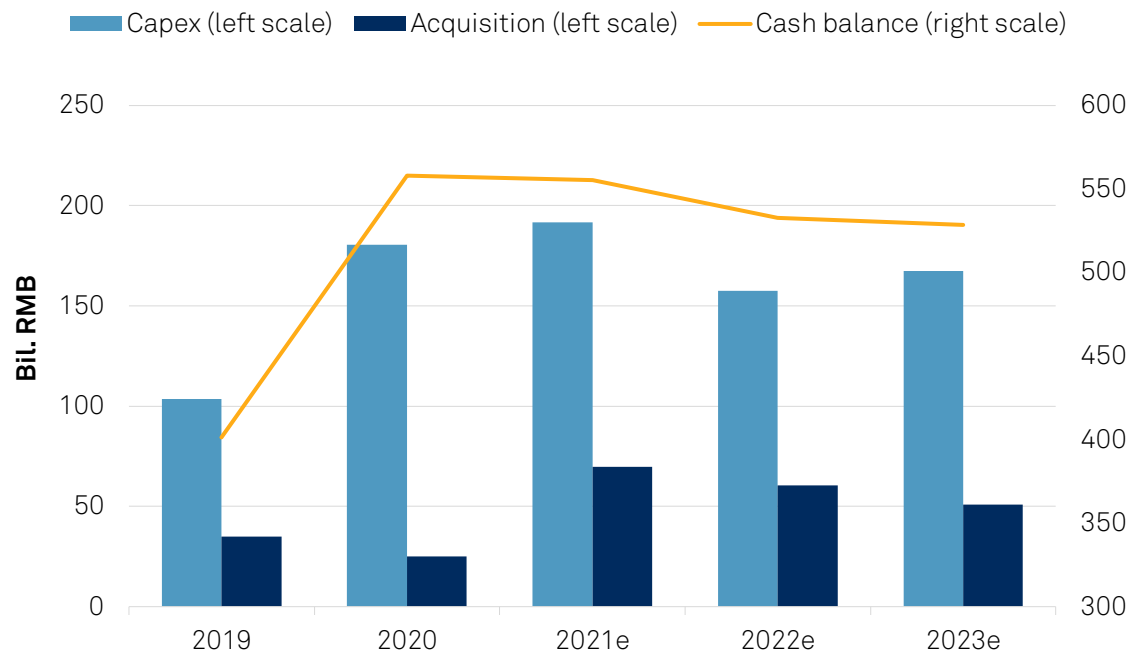


e--Estimate. COGS--Costs of goods sold. SG&A--Selling, general, and administrative costs. LHS--Left hand scale. RHS--Right hand scale. Source: S&P Global Ratings.

Cash Flows To Recover To Pre-COVID Levels In 2022

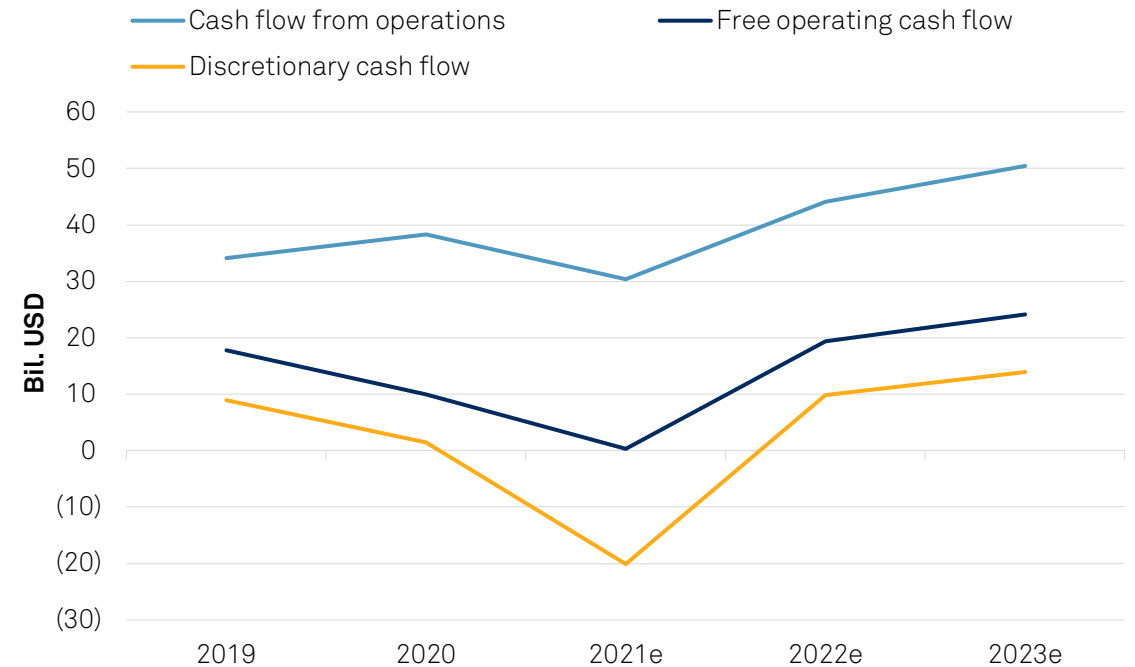
- FOCF is close to zero from higher cost and expansion appetite in 2021, with DCF turned negative from increasing shareholder returns.
- Repurchases and dividends driven by corporates with strong cash balance sheet (notably Jardine, Midea, WH Group, JD.com)

Capital Raised In 2020-2021 To Be Actively Deployed



e--Estimates. Bil.--Billion. RMB--Chinese renminbi. Source: S&P Global Ratings.

Shareholder Returns Increased In 2021

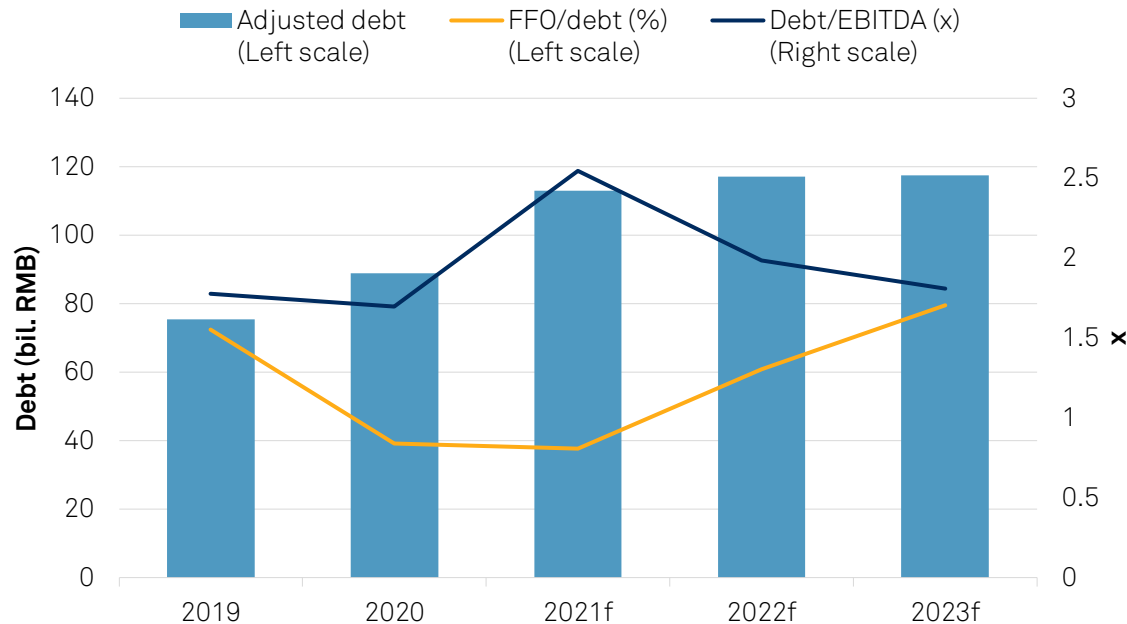


e--Estimates. Bil.--Billion. Source: S&P Global Ratings.

Leverage and Maturity Wall

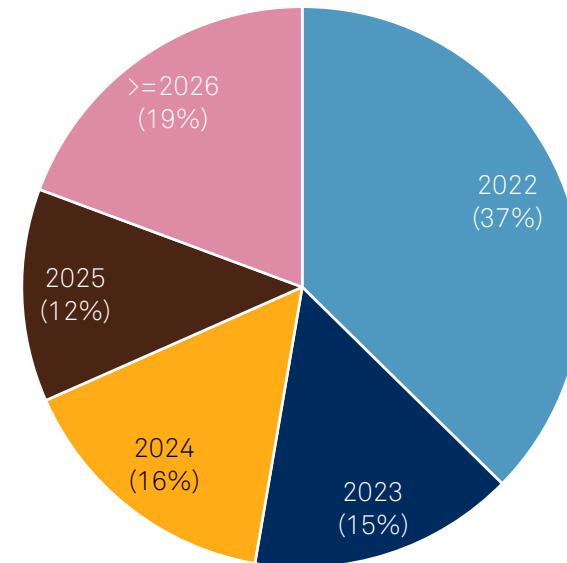
- About 40% of our coverage's gross debt is due within the next 12 months which puts funding environment into spotlight.
- Issuers relying more on short-term debt funding tend to be state-owned enterprises, or SOEs (e.g., Bright Food, COFCO) or have low leverage (Yili, VIPShop, Wuxi AppTec)

Recovery In Leisure Drives Leverage Improvement



f--Forecast. bil.--Billion. RMB--Chinese renminbi. Source: S&P Global Ratings.

Issuers Have Actively Managed Maturity Profiles

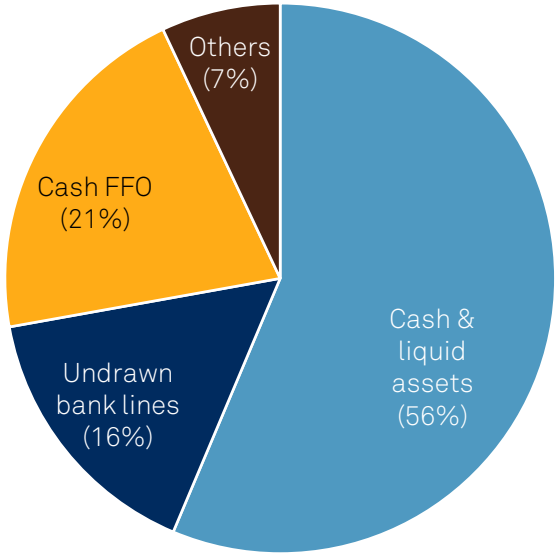


Source: S&P Global Ratings.

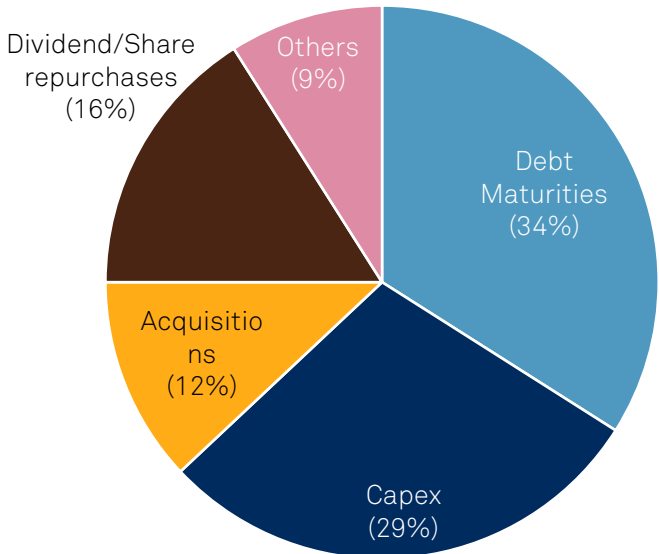
Liquidity Firm Across Coverage

- Sources to uses of liquidity for our coverage improved to 2.6x for the next 12 months, from 2.3x-2.4x in end 2019-2020.
- Issuers have actively managed debt maturities and lengthen maturity profile (e.g., Melco, Jardine, JD.com) or raised equity (Meituan, Yili).

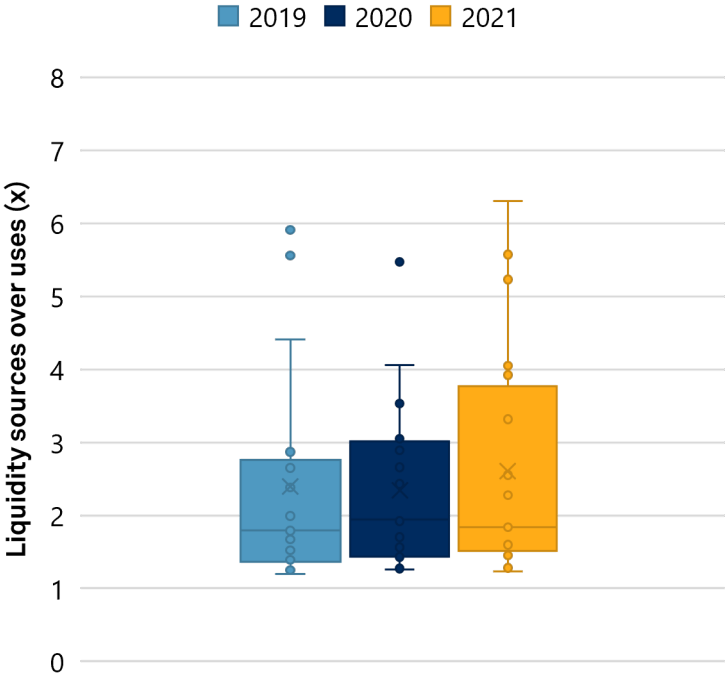
Liquidity Sources Driven By Cash Assets And FFO



Sizable Short-Term Maturities Are Backed By Policy Banks



Liquidity volatility in 2019-2021



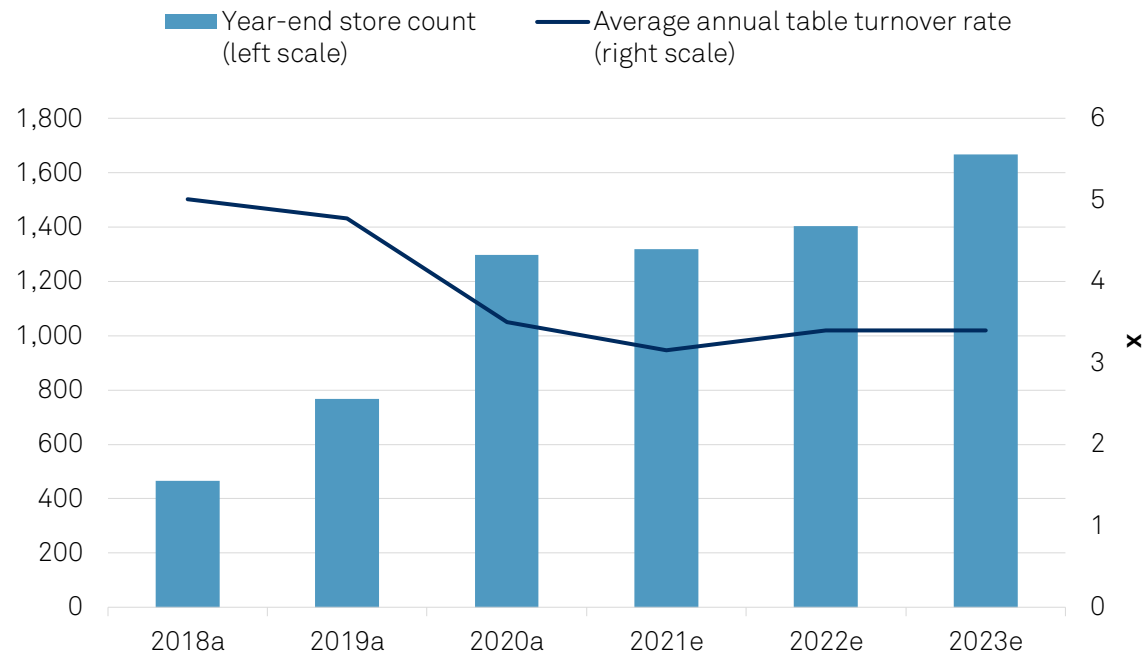
Source: S&P Global Ratings.

Negative Outlook Credits

Haidilao: Effort To Improve Restaurant Operations Could Fall Short

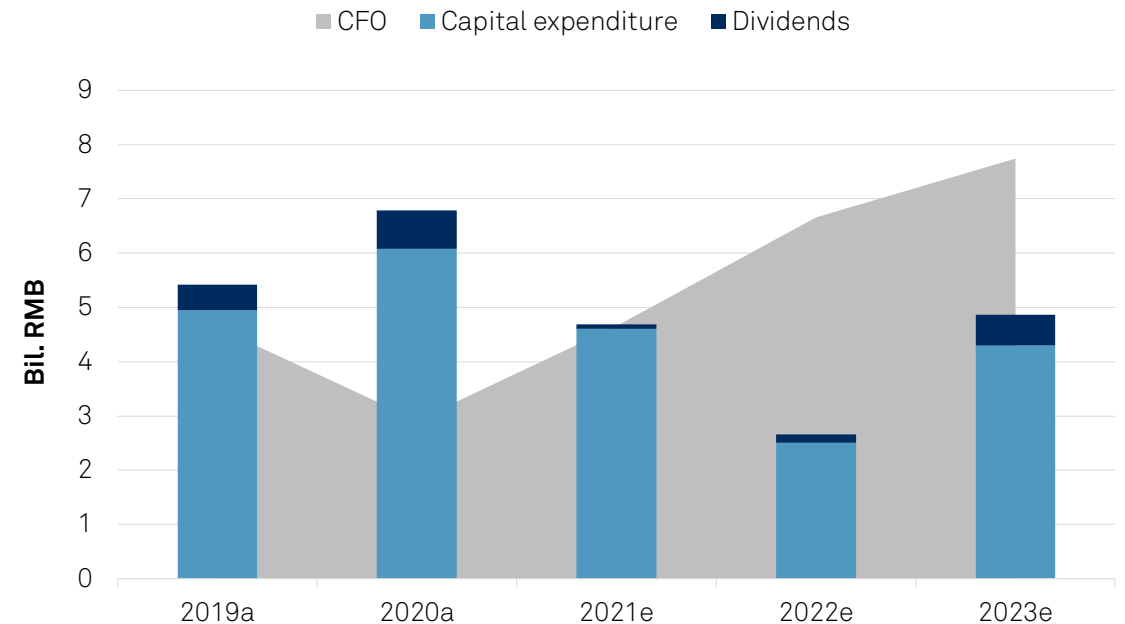
- **Top Investor Questions:** S&P's view on Haidilao's recent restaurant-closure strategy. Potential rating actions in 2022?
- **Watch Points in 2022:** Evolving business model. Improvement of operating performance and table turn-over. Changing consumer habits amid pandemic-driven restrictions.

Paused Expansion To Slightly Improve Table Turnover



Source: Company disclosure. S&P Global Ratings.

FOCF To Recover From 2021 Onwards

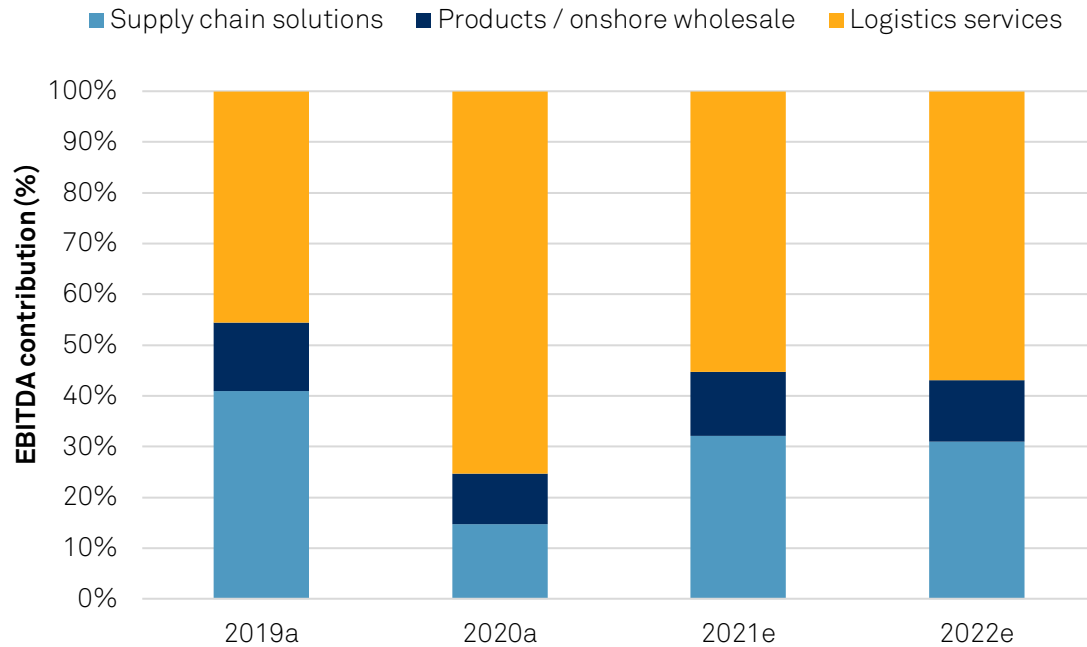


RMB--Chinese renminbi. Bil.--Billion. CFO--Cash flow from operations. Source: S&P Estimates. Company disclosures.

Li & Fung: Divestment Could Hurt Business Strength

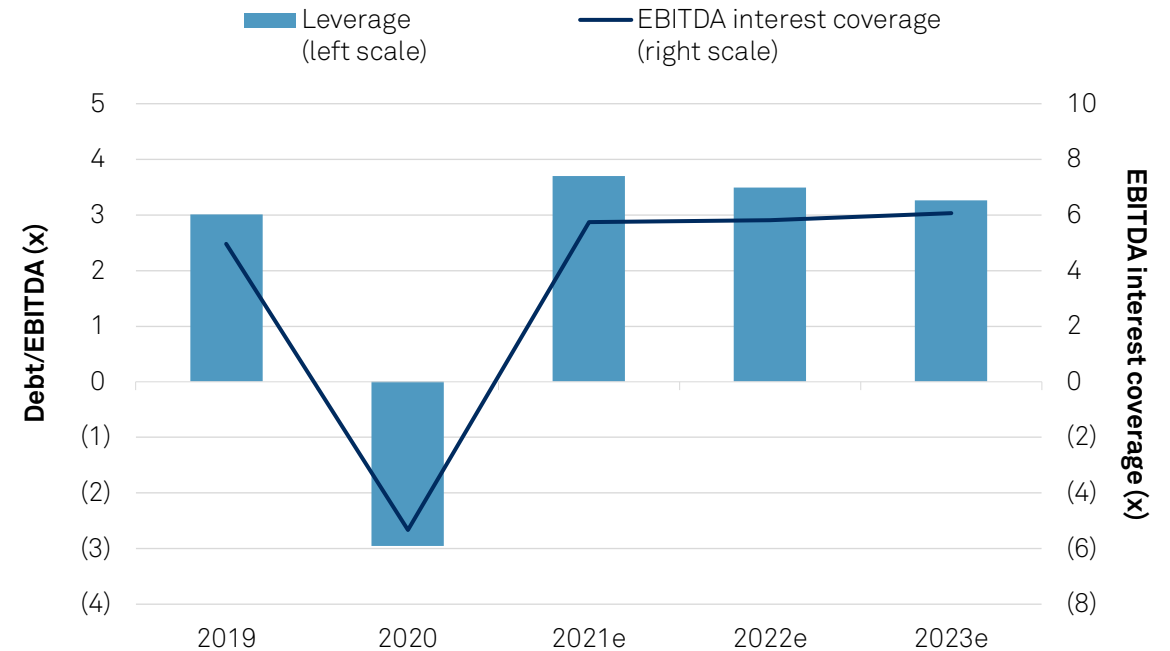
- **Top Investor Questions:** Whether financial gains can offset the weaker business strength. Use of proceeds.
- **Watch Points in 2022:** Divestment progress. Turnaround of the trading business.

Logistics Boosts EBITDA When Trading Segment Declined



a--Actual. e--Estimate. Source: Company financials. S&P Global Ratings.

Divestment Would Turn Company To Net Cash

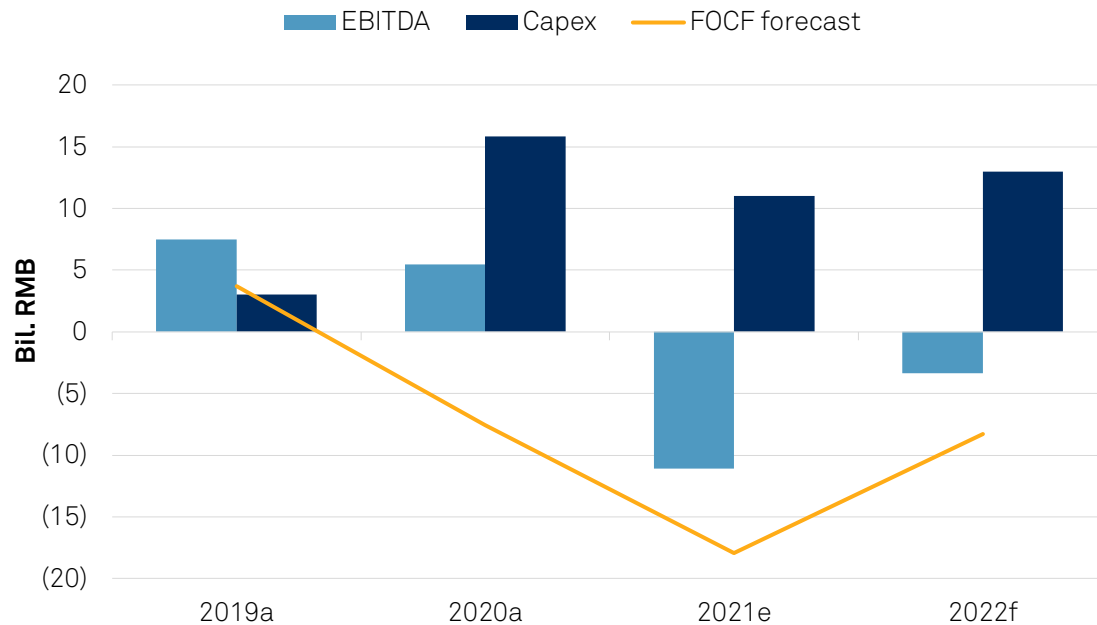


e--Estimate. Source: Company financials. S&P Global Ratings.

Meituan: Significant Execution Risks On Meituan Select

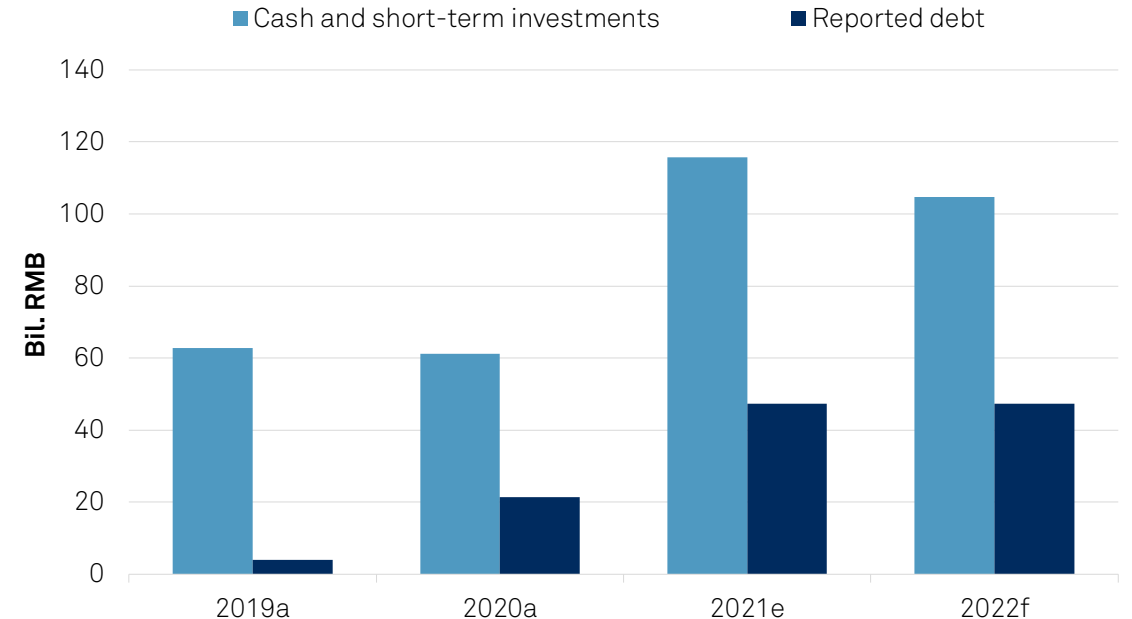
- **Top investor Questions:** Rating implications from the widened loss in Meituan Select and the tightened regulatory environment? Is Meituan’s recent operating performance in line with S&P expectation? Timeline to resolve the negative outlook?
- **Watch Points in 2022:** Will the company generate positive free operating cash flows by 2023? Regulatory changes in China are a risk.

Reduction In Loss And Capex to Reduce FOCF Deficit In 2022



RMB--Chinese Renminbi. Capex--Capital expenditure. FOCF--Free operating cash flow. Source: Company financials. S&P Global Ratings.

Meituan Has Ample Liquidity To Support Its Various Initiatives

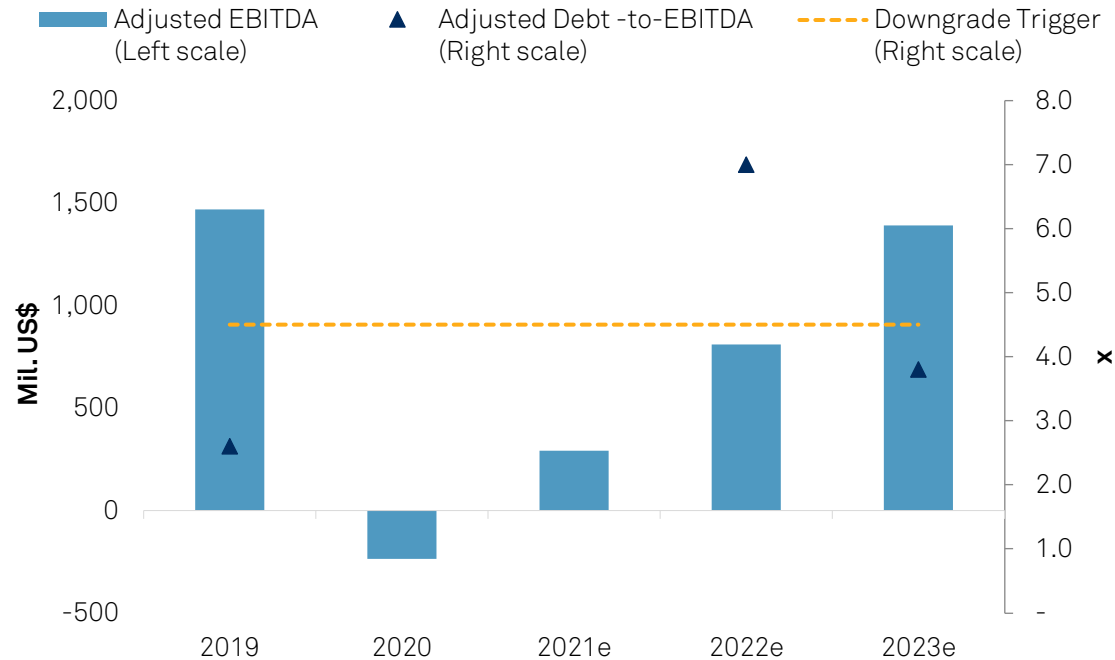


Bil.--Billion. RMB--Chinese renminbi. Source: Company financials. S&P Global Ratings.

Melco Resorts/ Studio City: COVID-19 Remains The Wild Card

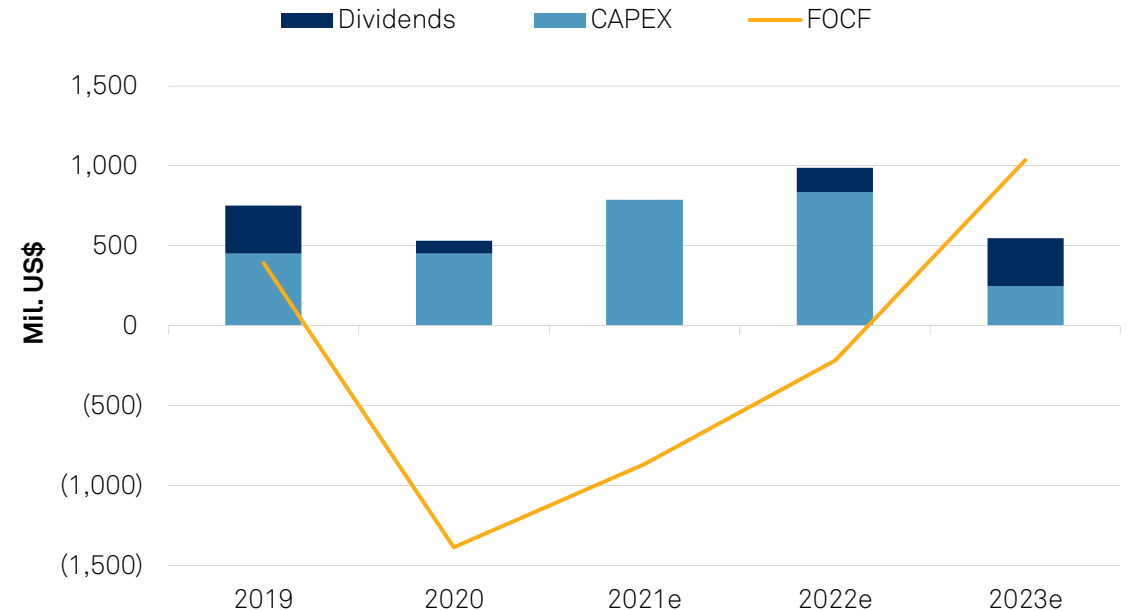
- **Top investor Questions:** Outlook for Macau casino operators given slow recovery? Major policy change to come? License renewal risk?
- **Watch Points in 2022:** Mass market gaming revenue recovery amid potential easing of travel restrictions. License renewal.

A Full Recovery in Macau's GGR May Only Happen In 2023 The Earliest



e-Estimate. Mil.--Million. Source: Company Disclosures and S&P Ratings Estimates.

Melco Resorts & Entertainment (MLCO)'s FOCF To Gradually Improve In The Next 24 Months

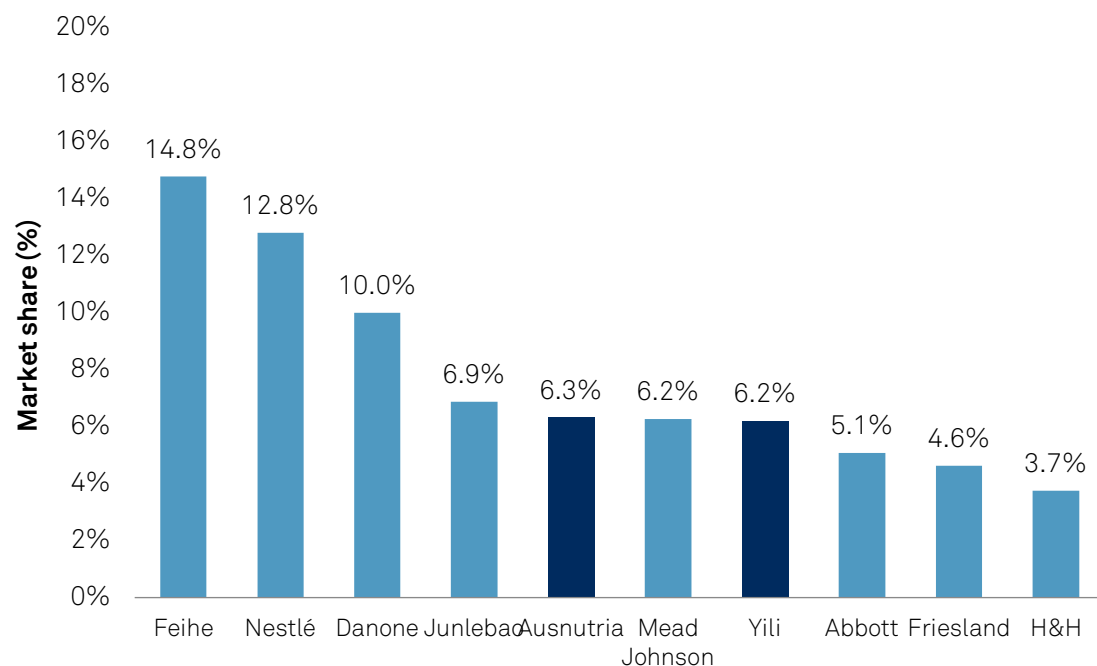


e-Estimate. Mil.--Million. Source: Company Disclosures and S&P Ratings Estimates.

Yili: Growing Appetite For Acquisitions

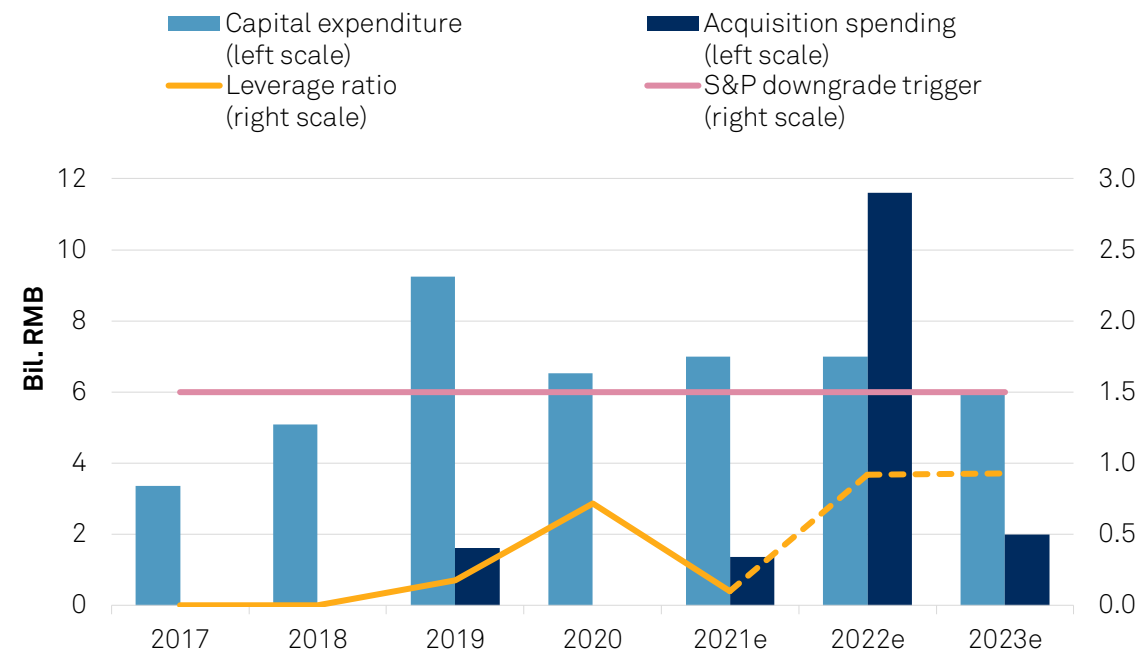
- **Top investors Questions:** What will it take to bring Yili back to stable outlook? What's the most likely scenario of the Ausnutria deal?
- **Watch Points in 2022:** Ausnutria deal closure, details of Yili's plans to achieve its target of world Top 3 by 2025.

Yili To Become No.2 Baby Formula Maker In China Upon Deal



Source: Euromonitor, S&P Global Ratings.

Increasing Risk Appetite With Rising Deal Size And Capex



E--Estimate. Bil.--Billion. RMB--Chinese renminbi. Source: S&P Global Ratings.

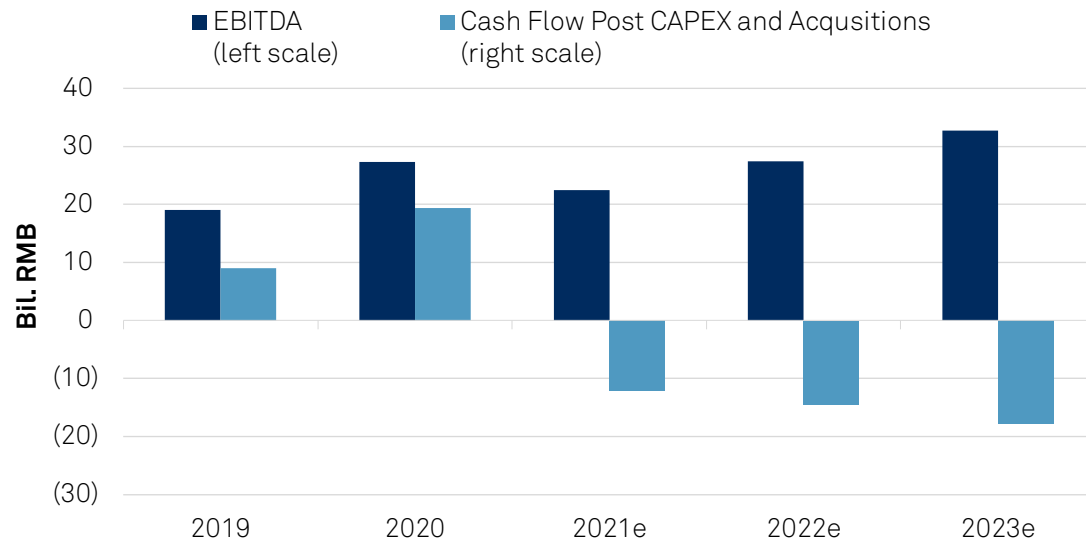
Positive Outlook Credits

Positive Outlooks on JD.com and Zhongsheng

Key Watch Points in 2022:

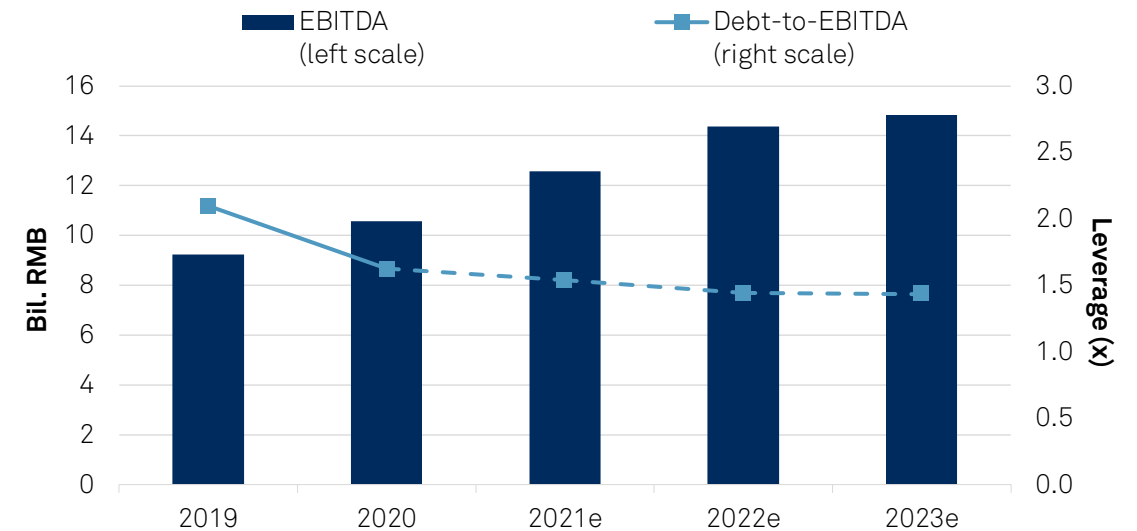
- JD.com: Investment in new initiatives particularly in lower-tier cities, expanding physical store network, and developing its logistics and supply chain. Regulatory changes in China are a risk.
- Zhongsheng: The impact of chip shortages on new car sales. Development of new energy vehicles business. Progress of the company's target to reduce debt, lower funding costs, and improve the mix of long-term and short-term maturities.

JD.com Will Likely Deploy Cash Raised In The Last 18 Months And Cash Flow Generated For Its Investments



e--Estimate. Bil.--Billion. RMB--Chinese renminbi. Source: Company financials, S&P Global Ratings.

Zhongsheng's EBITDA Growth To Keep Leverage Well Below 2.0x



e--Estimate. Bil.--Billion. RMB--Chinese renminbi. Source: Company financials, S&P Global Ratings.

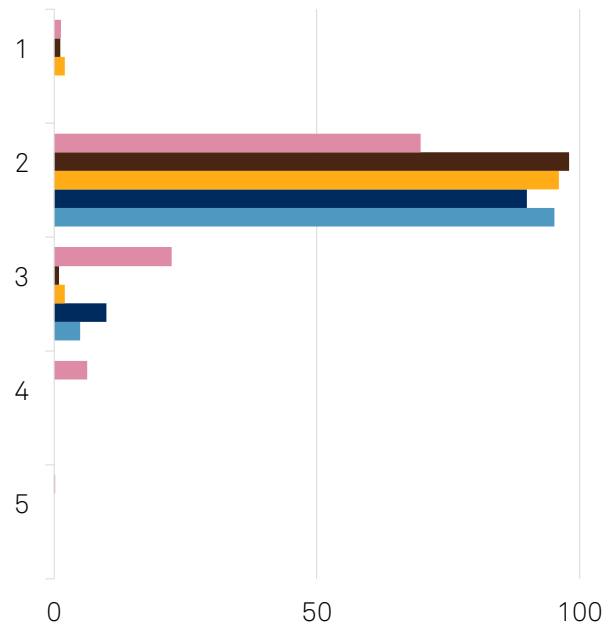
ESG Credit Indicator

ESG Credit Indicator Overview

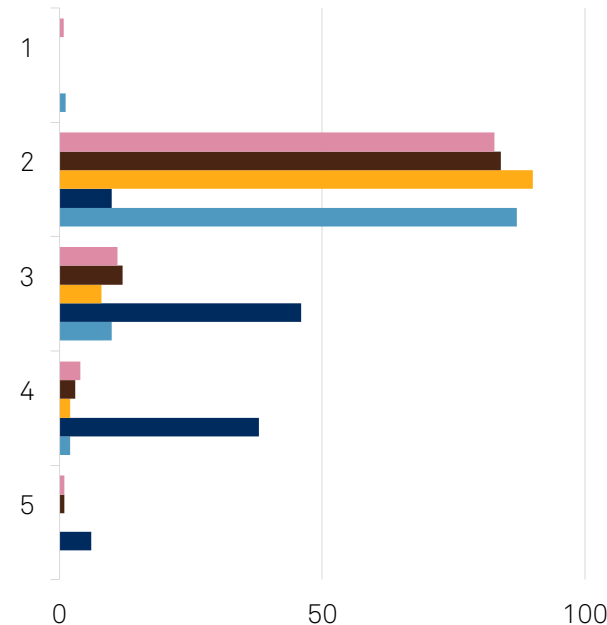
- Our ESG credit indicator provides additional disclosure by reflecting our opinions on how material ESG factors (on a 1-5 scale, from positive to negative) are on our credit rating analysis.

Distribution Of ESG Credit Indicator

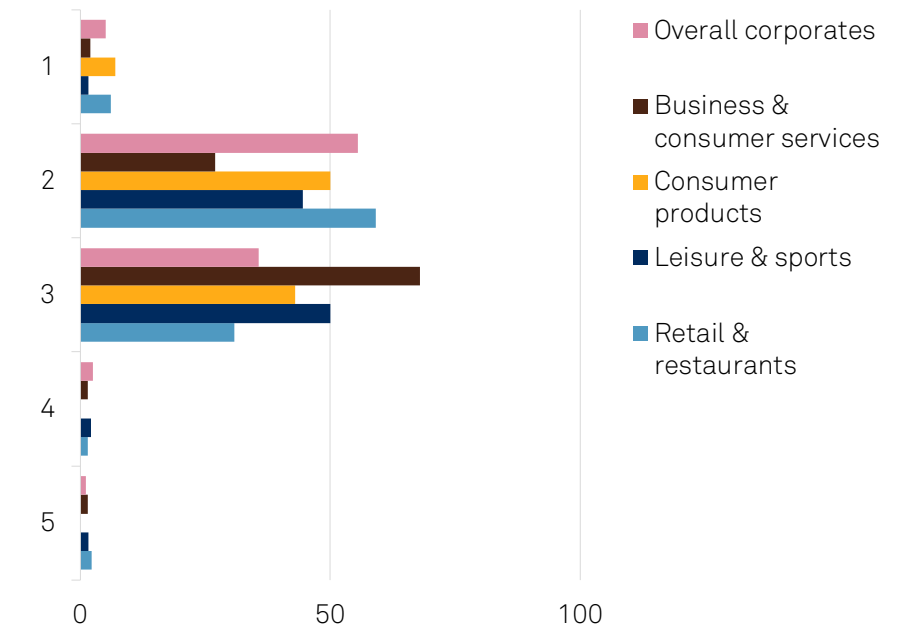
Environmental



Social



Governance



1=positive, 2=neutral, 3=moderately negative, 4=negative, 5=very negative. Our opinion of the influence of ESG factors on our credit rating analysis is reflected on 1-5 scale. Source: S&P Global Ratings.

ESG Credit Indicator Impact

Issuer	Credit indicator			ESG credit factors	ESG Influence
	E	S	G		
Agribusiness, Commodity Foods, And Commodity Trading					
China Modern Dairy Holdings Ltd. (CMD)	3	2	2	Physical risk	Environmental credit factors are a moderately negative consideration in our rating analysis on CMD. In addition to the above-average environmental risk for the agricultural sector, stemming from exposure to water use, climate change, and biodiversity, Chinese raw milk producer CMD has higher product and geographic concentration than peers. It only produces raw milk, and the production sites are only in China.
COFCO (Hong Kong) Ltd.	3	2	2	Physical risk	Environmental credit factors are a moderately negative consideration in our credit rating analysis of COFCO. The company engages in commodity trading, processing, and packaged foods businesses. The commodity trading and processing parts of the business expose the company to higher environmental risk (including climate, water, and biodiversity) that could cause a high degree of profit volatility. Even though COFCO has established goals to ensure sustainability, including reducing water intensity by 10% by 2025 and achieving full supply chain traceability for Brazilian soybeans by 2023, there haven't been more concrete actions or carbon reduction commitments.
WH Group Ltd.	3	2	2	Physical risk	Environmental factors are a moderately negative consideration in our credit analysis of WH Group. As WH Group is a wholesaler, producer, and retailer of meat products, it faces above-average environmental risks (including climate, water, and biodiversity). WH Group also operates large facilities with sizable amounts of animal waste, which must be managed carefully.
Consumer products					
Bright Food (Group) Co. Ltd.	2	2	3	Risk management, culture, and oversight	Governance factors are a moderately negative consideration in our credit rating analysis of Bright Food Group Co. Ltd. The company has been expanding overseas through acquisitions at its subsidiary Bright Food International over the past few years, and now aims to improve business operations and realize synergies from these assets. It has limited experience in tracking, adjusting, and executing strategies for its overseas assets.
Bright Food International Ltd.	2	2	3	Risk management, culture, and oversight	Governance factors are a moderately negative consideration in our credit rating analysis of Bright Food International. The company was assembled through several acquisitions across several continents. Its parent made the company the holding platform for almost all its international assets. Bright Food International's role is to improve business operations and realize potential synergies. The company has limited experience in its role of tracking, adjusting, and executing strategies for overseas assets. Environmental and social factors have no material influence on our credit rating analysis.
Fufeng Group Ltd.	2	2	3	Governance structure	Governance factors are a moderately negative consideration in our credit rating analysis of Fufeng Group Ltd. Three of the seven executive directors on the board are from the founding family. The executive directors from the founding family may have high influence on board decisions and this may not balance the interest of stakeholders.

ESG Credit Indicator Impact

Issuer	Credit indicator			ESG credit factors	ESG Influence
	E	S	G		
Leisure					
Melco Resorts (Macau) Ltd./ Studio City Co. Ltd.	2	4	2	Social capital; Health and safety	Social factors are a negative consideration in our credit rating analysis of Melco/Studio City. As a casino operator, Melco/Studio City faces health and safety concerns. Melco/Studio City still faces severe business disruptions from COVID-19 in Macau and the Philippines, as travel restrictions and social distancing measures amid resurgences of infection continue to hamper recovery. A full recovery in EBITDA might only happen in 2023. Increased regulations to address social risks, which could introduce volatility in gaming revenue and profitability, could also have a negative impact on the company.
Business, Environmental, And Consumer Services					
Meituan	2	4	2	Human capital; Social capital	Social factors are a negative consideration in our credit rating analysis of Meituan. The company is more exposed to social factor than peers and has been fined several times for modest sums for its business practices. We also note the increased focus on delivery rider safety and compensation. Tight delivery requirements have caused riders to take excessive risk and, rider compensation is seen by many as being too low. It is possible--or maybe even likely--that the government will mandate changes on both fronts at a time when the company's rating cushion is relatively low.
Retail And Restaurants					
China Tourism Group Corp. Ltd. (CTG)/ China Travel Service (Holdings) Hong Kong Ltd. (CTS HK)	2	3	2	Health and safety	Social factors are a moderately negative consideration in our credit rating analysis on CTG/CTS HK. The company's travel retail, hotel, and travel agency businesses are exposed to major health incidents and traffic restriction risks. CTG/CTS HK has managed COVID-19 disruptions much better than peers. This is in part because it benefits from its outsized exposure to China, which experienced fewer disruptions relative to other markets. In addition, the company successfully shifted duty-free shopping to online, leveraging its good supplier relationships.
JD.com Inc.	2	3	2	Social capital	Social factors are a moderately negative consideration in our credit analysis of JD.com. The company is subject to regulatory risk. We believe the government can add new rules as to how the business may operate or could subject some of JD.com's past practices to fines. JD.com is also subjected to data privacy risk as an online operator that manages the account information of more than 500 million customers.
Jardine Matheson Holdings Ltd.	2	2	1	Risk management, Risk culture, and risk oversight	Governance factors are a moderately positive consideration in our credit rating analysis of Jardine. The company has a strong management team, with good depth and breadth across business lines that reduce the risk of significant disruption if key personnel are lost. The team has considerable expertise, experience, and a record of success. The company also has a long record of setting consistent strategies and achieving its goals.
Vipshop Holdings Ltd.	2	3	3	Social capital; Governance structure	Social and governance factors are moderately negative considerations in our credit rating analysis of Vipshop. The company is subject to regulatory risk. It was fined about RMB3 million by the government for anti-competitive business practices. On governance, Chairman and CEO Eric Shen exercises significant control over key corporate decisions, with 56% voting control through super voting shares. While he has only about a 12% shareholding in the company, he has considerable influence in key matters such as electing directors, approving mergers and acquisitions, and other major business transactions.

ESG factors have had no material influence on our credit rating analysis for the rest entities under our coverage.

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Related Research

Commentary:

- [Will Haidilao's Downsizing Lower The Heat Through COVID](#), Jan. 24, 2022
- [Economic Research: Macroeconomic Update](#), Jan. 20, 2022
- [Macau's Proposed Gaming Bill Moderates License Renewal Risks](#), Jan. 16, 2022
- [2022 Credit Outlook: Aftershocks, Future Shocks, And Transitions](#), Dec. 9, 2021
- [China Power Outages Add Dark Clouds To An Already Weakening Consumer Sector](#), Nov 11, 2021
- [China Property Watch: Strains In The Key Of 'B'](#), Oct. 27, 2021
- [S&P Global Ratings Metal Price Assumptions: Choppy Markets Drive Erratic Moves](#), Oct. 11, 2021

ESG Credit Indicator:

- [ESG Credit Indicator Report Card: Agribusiness, Commodity Foods, And Commodity Trading](#), Dec. 17, 2021
- [ESG Credit Indicator Report Card: Consumer Products](#), Dec. 17, 2021
- [ESG Credit Indicator Report Card: Business, Environmental, And Consumer Services](#), Dec. 16, 2021
- [ESG Credit Indicator Report Card: Retail And Restaurants](#), Dec. 16, 2021
- [ESG Credit Indicator Report Card: Leisure](#), Dec. 08, 2021
- [ESG Credit Indicator Definitions And Application](#), Oct. 13, 2021
- [Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021.

Related Research

Notable Negative Rating Actions:

- [Research Update: Li & Fung Ltd. Outlook Revised To Negative On Planned Logistics Divestment; 'BBB-' Rating Affirmed](#), Dec 23, 2021
- [Research Update: Meituan 'BBB-' Ratings Affirmed On Improving Operating Performance, Outlook Negative](#), Dec 1, 2021
- [Research Update: Inner Mongolia Yili Industrial Group Ratings Outlook Revised To Negative On Acquisition Push; 'A-' Rating Affirmed](#), Nov. 2, 2021
- [Research Update: Melco Resorts And Studio City Downgraded On Slow Recovery In Macau's Gaming Revenue; Outlook Negative](#), Oct. 13, 2021
- [Research Update: Haidilao International Outlook Revised To Negative On Aggressive Expansion And Execution Risk; 'BBB' Rating Affirmed](#), Aug. 31, 2021
- [Research Update: Li & Fung Downgraded To 'BBB-' Due To Deteriorating EBITDA And Cash Position; Stable Outlook](#), Apr. 12, 2021
- [Research Update: Meituan Outlook Revised To Negative On Investment Execution Risk; 'BBB-' Ratings Affirmed](#), Apr 1, 2021

Notable Positive Rating Actions:

- [Research Update: Midea Group Upgraded To 'A' On Brand Strengthening And Diversification; Outlook Stable](#), Nov 15, 2021
- [Research Update: Packaged Food And Beverage Maker Tingyi Upgraded To 'A-' From 'BBB+' On Strong Market Position; Outlook Stable](#), Sep 6, 2021
- [Research Update: Zhongsheng Outlook Revised To Positive On Improved Leverage And Liquidity Buffer; 'BBB-' Rating Affirmed](#), Aug 30, 2021
- [Research Update: JD.com Upgraded To 'BBB+' On Improving Business Position In China's E-Commerce Market; Outlook Positive](#), Mar 24, 2021

The recent rapid spread of the omicron variant highlights the inherent uncertainties of the pandemic as well as the importance and benefits of vaccines. While the risk of new, more severe variants displacing omicron and evading existing immunity cannot be ruled out, our current base case assumes that existing vaccines can continue to provide significant protection against severe illness. Furthermore, many governments, businesses, and households around the world are tailoring policies to limit the adverse economic impact of recurring COVID-19 waves. Consequently, we do not expect a repeat of the sharp global economic contraction of second-quarter 2020. Meanwhile, we continue to assess how well each issuer adapts to new waves in its geography or industry.

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