Asia-Pacific Sector Roundup Q4 2023

A Skewed Recovery

Sept. 27, 2023

Key Takeaways

- **China’s growth slides.** China’s post-COVID economic recovery is encountering a host of challenges. Old wounds have reopened for the country’s property developers following recent stresses. Confidence is slipping further and spillover effects to associated sectors (such as local governments) abound. We do not anticipate substantial fiscal or monetary stimulus by the central government in coming months. Therefore, we lowered the country’s economic growth to 4.8% in 2023 and 4.4% in 2024.

- **Persisting higher funding costs.** The "higher for longer" interest rate environment means costlier borrowing will persist. Meanwhile, credit availability could become more selective as financiers turn increasingly conservative amid uncertain economic conditions. Domestic funding options (such as bank loans, which form a substantial part of the region’s financing channels) remain largely open.

- **Outside China, the region’s growth continues.** We marginally raised our forecast for Asia-Pacific ex-China growth to 3.9% in 2023 to reflect domestic resilience. We are thinking of an increased likelihood of a soft economic landing for the U.S. and Europe, which is a positive for the export-centric region.

- **Divergent recovery.** The region’s net rating outlook bias is steady at negative 2% as of end-August 2023. However, the distribution suggests uneven credit conditions for sectors, pointing to a divergent recovery.

(EDITOR’S NOTE: This report is an expansion of the “Sector Trends” section from our “Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High” report, published Sept. 26, 2023.)

**China sees lower growth.** China’s property sector is in the doldrums, where even tier-one markets are seeing falling sales. Consequently, we have lowered our forecast for China’s real GDP growth to 4.8% in 2023 and 4.4% in 2024 (see “Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown”, Sept. 25, 2023). The country’s efforts to stabilize its property markets are now focused on the largest cities, as part of the authorities’ objective to broaden market-boosting measures. However, the latest round of easing might siphon off demand from lower-tier cities (see “China Still Has More Policy Tools To Stabilize The Higher Tier Property Markets”, Sept. 26, 2023).

Weaknesses in the Chinese property sector could reverberate through to developers and real estate-related sectors (including engineering and construction firms, and building materials and equipment suppliers) through liquidity strains. For households, the property crisis is hampering confidence, which may lead to reduced consumption of big-ticket items (e.g., automobiles). Meanwhile, lower land-sale revenues will curtail the ability of local and regional governments (LRGs) to support state-owned enterprises (SOEs) and broader economic activity (see “China’s District And County Recovery Crimped By Property Slide And Debt Checks”, Sept. 13, 2023).

spglobal.com/ratings
High financing costs to bite. With central banks in major economies (including the U.S. Federal Reserve and the European Central Bank) biased to containing inflation, interest rates will likely stay high. For those entities with sizable refinancing needs, high borrowing costs and expensive loan servicing will hurt, should financiers ask for higher risk premia or turn selective. Amid rising interest rate differentials with the U.S., the region could see capital outflows, sparking domestic currency depreciation.

Profit margins stay pressured. Inflation has shown signs of easing in most Asia-Pacific economies, but a cost overhang remains. Although corporates have begun passing on costs to consumers, this trend is uneven and is likely to be exacerbated by continued weak consumer confidence. The profit margins of sectors where cost pass-through is challenging (e.g., due to high price elasticity) would be pinched most.

Geopolitical tensions. The geopolitical relationship between China and the U.S. (and its partners) remains fraught. For some sectors (particularly technology), the risks are more pronounced. The U.S.’s restrictions on the export of advanced semiconductors to China, and investment curbs on Chinese technology firms, could prompt businesses to reshore their operations, increasing costs and capital expenditure (capex). Meanwhile, extreme weather events (such as flooding and high temperatures across Asia) are threatening agriculture production and energy supply. The rice export curbs from India, interrupted grain supplies (Russia and Ukraine war) and higher energy prices risk raise the possibility of heightened global inflation.

Divergent paths. On aggregate, the net rating outlook bias of Asia-Pacific issuers (including nonfinancial corporates, financial services, sovereign, and public finance) is steady at negative 2% as of end-August. However, the distribution suggests uneven credit conditions faced by sectors, pointing to a more divergent recovery.
Outlook distribution of Asia-Pacific issuers by sector

Note: Data cut-off is at Aug. 31, 2023.
Source: S&P Global Ratings.
Table 1

<table>
<thead>
<tr>
<th>Sector</th>
<th>Aug 2022</th>
<th>Oct 2022</th>
<th>Feb 2023</th>
<th>May 2023</th>
<th>Aug. 31, 2023</th>
<th>No. of entities</th>
<th>Notional average rating</th>
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<tbody>
<tr>
<td>Auto OEM and suppliers</td>
<td>0%</td>
<td>0%</td>
<td>-6%</td>
<td>-3%</td>
<td>-6%</td>
<td>32</td>
<td>BBB</td>
</tr>
<tr>
<td>Building materials</td>
<td>-8%</td>
<td>-7%</td>
<td>-7%</td>
<td>-13%</td>
<td>-19%</td>
<td>16</td>
<td>BBB-</td>
</tr>
<tr>
<td>Business services</td>
<td>-15%</td>
<td>-9%</td>
<td>-8%</td>
<td>7%</td>
<td>-8%</td>
<td>13</td>
<td>BBB-</td>
</tr>
<tr>
<td>Capital goods</td>
<td>-11%</td>
<td>-11%</td>
<td>8%</td>
<td>-6%</td>
<td>-9%</td>
<td>35</td>
<td>BBB</td>
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<tr>
<td>Chemicals</td>
<td>3%</td>
<td>0%</td>
<td>0%</td>
<td>-3%</td>
<td>-3%</td>
<td>31</td>
<td>BBB</td>
</tr>
<tr>
<td>Consumer products</td>
<td>-4%</td>
<td>-3%</td>
<td>7%</td>
<td>0%</td>
<td>-4%</td>
<td>27</td>
<td>BBB</td>
</tr>
<tr>
<td>Diversified</td>
<td>0%</td>
<td>0%</td>
<td>6%</td>
<td>17%</td>
<td>6%</td>
<td>18</td>
<td>A-</td>
</tr>
<tr>
<td>Healthcare</td>
<td>-13%</td>
<td>-29%</td>
<td>-14%</td>
<td>-14%</td>
<td>0%</td>
<td>6</td>
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<tr>
<td>Hotels, gaming, and leisure</td>
<td>-15%</td>
<td>-20%</td>
<td>-22%</td>
<td>-12%</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>7</td>
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<td>Media and entertainment</td>
<td>-22%</td>
<td>-71%</td>
<td>-9%</td>
<td>-9%</td>
<td>-9%</td>
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<tr>
<td>Metals and mining</td>
<td>11%</td>
<td>12%</td>
<td>15%</td>
<td>13%</td>
<td>4%</td>
<td>51</td>
<td>BBB-</td>
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<tr>
<td>Oil and gas</td>
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<td>-4%</td>
<td>0%</td>
<td>9%</td>
<td>9%</td>
<td>23</td>
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<tr>
<td>Real estate development</td>
<td>-32%</td>
<td>-28%</td>
<td>-23%</td>
<td>-13%</td>
<td>-14%</td>
<td>28</td>
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<tr>
<td>Real estate investment trusts</td>
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<td>-13%</td>
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<td>Retail</td>
<td>-6%</td>
<td>-6%</td>
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<td>Technology</td>
<td>0%</td>
<td>-5%</td>
<td>-10%</td>
<td>-12%</td>
<td>-10%</td>
<td>51</td>
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<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>32</td>
<td>BBB</td>
</tr>
<tr>
<td>Transportation cyclical</td>
<td>-17%</td>
<td>-17%</td>
<td>-17%</td>
<td>-17%</td>
<td>-17%</td>
<td>18</td>
<td>BBB</td>
</tr>
<tr>
<td>Telecommunication infrastructure</td>
<td>-3%</td>
<td>-4%</td>
<td>-6%</td>
<td>-6%</td>
<td>-6%</td>
<td>49</td>
<td>A-</td>
</tr>
<tr>
<td>Utilities</td>
<td>-6%</td>
<td>-6%</td>
<td>-8%</td>
<td>-7%</td>
<td>-3%</td>
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<tr>
<td>Total corporates</td>
<td>-7%</td>
<td>-6%</td>
<td>-5%</td>
<td>-4%</td>
<td>-5%</td>
<td>636</td>
<td>BBB</td>
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<tr>
<td>Financial institutions</td>
<td>3%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
<td>8%</td>
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<tr>
<td>Insurance</td>
<td>-11%</td>
<td>-11%</td>
<td>-9%</td>
<td>-8%</td>
<td>-8%</td>
<td>171</td>
<td>A</td>
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<tr>
<td>Public finance</td>
<td>-12%</td>
<td>-9%</td>
<td>-14%</td>
<td>-11%</td>
<td>-13%</td>
<td>80</td>
<td>AA-</td>
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<tr>
<td>Sovereign</td>
<td>-7%</td>
<td>-7%</td>
<td>-3%</td>
<td>-3%</td>
<td>-7%</td>
<td>30</td>
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<tr>
<td>Total issuers</td>
<td>-5%</td>
<td>-3%</td>
<td>-3%</td>
<td>-2%</td>
<td>-2%</td>
<td>1,296</td>
<td>BBB+</td>
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</tbody>
</table>

Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa. OEM—Original equipment manufacturer. Teal colored cells indicate improvement from prior period, red, deterioration. Source: S&P Global Ratings.
How risks affect credit

Risk themes

- Confronting credit headwinds
- Reshuffling capital flows
- Navigating geopolitical uncertainty
- Seeking energy and climate resilience
- Managing crypto and cyber disruption

Channels

- Weaker business and consumer confidence
- Changes in demand and export mix
- Capital market freezes
- Costlier and tighter lending
- Fall in prices
- Sale volumes dropping
- Uneven cost pressures
- Production and supply disruption

Impact on credit

- Financing access stress
- Lower revenues
- Higher costs

BOJ—Bank of Japan. Not all relationships are displayed. Rank-numbered risks are discussed in our "Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High" report; colors denote risk levels: brown—high, red—elevated, light red—moderate. Source: S&P Global Ratings.
Auto
Demand uncertainty and pricing pressure to persist

What do we expect over the next 12 months?

• Improving global auto sales, lower raw material costs and easing supply-chain disruptions will underpin stable credit profiles for most rated Asia-Pacific auto companies.

• Our net rating outlook bias for the sector turned slightly more negative. Nevertheless, this follows a stabilization of an issuer’s outlook after a rating upgrade.

• Having said that, price competition and increasing electric vehicle sales will continue to weigh on carmakers’ profitability and cash flows.

What are the key risks around the baseline?

Soft macro outlook. China's economic growth was below market expectation in the second quarter and is clouded by weak sentiment among consumers and in the property market. In the U.S., stickier-than-expected inflation and demand could bring more rate hikes or keep rates elevated for longer. In Europe, the risk of a sharper and more protracted downturn is still significant.

Heightening competition. A price war in China's auto market extended into the second half of the year. Multiple local and joint-venture brands cut prices and offered promotions to sustain purchases. In the electric vehicle space, the launch of new products and frequent upgrades adds to the competitive pressure.

What do they mean for the sector?

Demand weakness. Light-vehicle sales (excluding exports) in China were basically flat in the first eight months of 2023, largely consistent with our assumption of 0%-2% annual growth. However, risk is tilted toward the downside given weak consumer confidence amid economic headwinds. In the U.S. and Europe, the year-to-date auto sales have meaningfully exceeded our expectation. Yet, the momentum is likely to moderate in the rest of the year and in 2024, with persistent inflation and high interest rates dampening affordability.

Margin pressure. We expect higher volumes, lower commodity costs, and improving operating efficiency to support modest margin expansion and earnings growth for rated Asia-Pacific carmakers in general in 2023-2024. The weaker demand prospect, sustained pricing pressure, and increasing revenue contribution from the lower-margin EVs will make the road to margin recovery bumpy.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO -- Funds from operations. a -- Actual. f -- Forecast. Source: S&P Global Ratings.
Building Materials
Asia-Pacific producers brace for market volatility

What do we expect over the next 12 months?

- The satisfactory competitive position and sufficient financial headroom of most rated Asia-Pacific building material companies will help them manage uncertain demand conditions, steadying creditworthiness.
- Chinese producers’ recovery in demand and financial performance may be further delayed to 2024 as we see an increased risk that property sales may yet worsen, following the recent stress event of one of the country’s largest private real estate developers.
- Korean producers’ operating performance faces a test: construction companies are turning more selective about project starts, and housing-market sentiment remains weak amid rising interest rates. The Australian market will remain healthy, with a strong pipeline in the residential sector as growth in net overseas migration supports housing demand and public sector investment improves.

What are the key risks around the baseline?

**Chinese property market’s worsening slump and high interest rates outside of China.** The recent stress event of Country Garden’s delayed interest payment could further dampen China’s slow-healing property market. We see an increasing risk of a “descending staircase” sales outlook in 2024 from our assumption of an “L-shaped” recovery. Infrastructure growth momentum could also moderate in 2024 on more disciplined spending, due to increasing focus on debt risk and investment sustainability. Outside China, sustaining-high interest rates continue to weaken housing market sentiment.

**Still-high input cost and extreme weather events.** This includes high raw material and labor costs stemming from inflation, supply constraints, and geopolitical risks outside China. Extreme weather events, such as the recent devastating flooding in northern China, could cause supply-chain bottlenecks and delays in construction activities.

What do they mean for the sector?

**Demand pressure.** Subdued economic growth and weak homebuyers’ confidence in China would dampen investment into new properties, hitting construction and—therefore—demand for building materials. Weak housing market sentiment due to rising interest rates outside China will have the same hit on demand growth for building materials.

**Margin squeeze.** Still-high raw material prices would constrain building material companies’ profitability. Moderating coal prices has partly mitigated the pressure. Chinese players may face greater strains on profitability among regional peers due to a weak ability to raise prices amid sluggish demand.
Capital Goods
Demand and cash flow outlook mixed

What we expect over the next 12 months

- A slow recovery in China and some end-markets casts a shadow over the earnings outlook in Asia-Pacific.
- Key risks include capital goods companies’ aggressive spending despite slowdowns in capital spending by corporate customers, impeding the recovery of key leverage measures.
- The demand outlook and the degree of margin protection, as well as cash flow management, will be key drivers of credit quality.

What are the key risks around the baseline?

**Slower recovery in China and some end markets.** Weak property sector and slow spending in consumption in China may dampen demand from the Chinese corporate sector for capital goods, despite some positive (albeit targeted) effects from government infrastructure stimulus plans. Companies outside of China, such as in Japan, are also exposed to U.S. and European economies, where recession concerns have eased. However, delays in demand recovery in some end-markets, such as semiconductors, means slower capex investments by corporate customers.

**High spending but weaker cash flow.** Capital goods companies’ own capex, growth investment, and spending for shareholder returns are likely to increase, on the back of earnings recovery and an easing working capital burden. But inflation or a weaker macroeconomy will erode EBITDA and cash flow, potentially hurting credit metrics further.

What do they mean for the sector?

**Slower EBITDA growth.** We believe the ability to pass costs to customers of Asia-Pacific capital goods companies is low compared with firms in the U.S. and Europe, due to fierce price competition. A lower ability to pass on costs, together with weaker demand and soft sales, would prevent Asia-Pacific companies from improving EBITDA and margins.

**Cash-flow management.** Given our continued expectation for weaker economic conditions, we assume capital goods companies will manage capital spending and growth investment, when necessary, such that the industry’s ratio of debt to EBITDA remains flat in 2023. However, if the economic outlook weakens further, and firms continue to invest, the ratio could deteriorate.

Note: All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. a—Actual. f—Forecast. Source: S&P Global Ratings.
Chemicals
A material recovery in Asia’s chemical market remains elusive

What do we expect over the next 12 months?

- A sustainable recovery is not assured after a modest improvement in the third quarter.
- Product spreads for commodity chemicals are likely to remain weak, albeit improving gradually in the coming quarters.
- As profit stabilizes, so should leverage.

What are the key risks around the baseline?

**Stalling market demand.** A persistent slump in China’s property market and exports could prevent a meaningful rebound in chemical demand.

**A weaker ability to pass through costs.** Rising crude oil prices could again hurt the ability of commodity chemical companies to pass through product costs if demand does not pick up sufficiently to support higher chemical prices.

**More debt than we previously assumed.** Commodity chemical companies could add more debt than we assume over the next 12-24 months given continued pressure on profitability.

What do they mean for the sector?

**Depressed profitability.** Chemical companies’ profitability is likely to stabilize over the next three to four quarters at a level materially below the average of past cycles.

**Rising leverage.** Leverage is likely to slightly rise over 2023-24 given weak profitability and continued capex.

**Thin financial buffer.** Rated entities’ leverage will likely largely remain within their ratings triggers over the next 12 months, despite thinner financial buffers.
Consumer Products

Markups support a recovery in performance

What do we expect over the next 12 months?

- Subdued real income for recent inflation and slowing growth for the Chinese economy weigh on consumption, deflating the post-pandemic recovery momentum.
- Pressure on profitability moderates thanks to ongoing markup efforts by consumer goods companies and lower input cost inflation.
- Prudent financial policies will support credit profiles of consumer-product companies.

What are the key risks around the baseline?

**Price competition intensifies.** This adds to margin pressure following a series of increases to input costs. Where higher prices do pass through, this could benefit private-label brands--as consumers tend trade down to cheaper, no-brand goods in such circumstances.

**Subdued spending in China.** Consumer confidence remains weak due to slowing economic growth. Continued uncertainties in the real estate sector also sap consumers' spending appetite.

**Souring financing conditions.** Growing refinancing costs stemming from unfavorable exchange rates, along with higher interest rates, weigh on companies with a highly leveraged capital structure.

What do they mean for the sector?

**Brand equity matters.** An ability to pass on higher costs hinges on a company's ability to offer differentiable value to consumers. High value and a differentiated offering enable a firm to protect its profitability amid intensified price competition and elevated input costs.

**Recovery in performance could slow.** Consumer goods companies operating in China, especially those in discretionary areas, could face a slower recovery in profitability than others.

**Slower debt growth.** Higher funding costs urge highly leveraged companies to adopt prudent financial policies. Tough economic conditions also encourage companies to focus more on their core businesses than large M&A transactions.

Note: All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations, a—Actual, f—Forecast. Source: S&P Global Ratings.
Financial Institutions
Steady amid strains

What do we expect over the next 12 months?

- Most rating outlooks are stable, and we expect this scenario to persist in 2024, noting that risks generally remain on the downside.
- Much weaker growth and higher interest rates outside our base case will test rating outlooks, as will much weaker-than-anticipated asset quality.
- Most Asia-Pacific banks can absorb stresses associated with property at current rating levels, unless risks intensify meaningfully.

What are the key risks around the baseline?

**Economic downside risks intensify.** Banks’ net interest margins benefit from higher interest rates, but materially weaker economic prospects or higher-for-longer interest rates will eventually hurt banks’ asset quality. This is especially the case amid already-highly leveraged corporate, household, and government sectors, and the region’s property markets that are experiencing pockets of stress.

**Weaker confidence.** Contagion risks to banks’ funding and liquidity in the wake of Credit Suisse and U.S. regional bank failures have moderated. Nonetheless, in the higher-rates, lower-growth environment, investor confidence could be easily shaken.

**Structural risks.** Climate change, cyber risks, and digitalization trends affecting the competitive landscape are structural risks that will increasingly test banks and their borrowers.

What do they mean for the sector?

**A strain on asset quality.** Net interest margins for most financial institutions are benefiting from higher interest rates. However, if economic hurdles are much worse than we now anticipate, this will dampen credit demand, strain corporate and household borrowers, and affect banks’ asset quality.

**Greater credit differentiation.** Potentially more vulnerable are Asia-Pacific financial institutions with high direct exposures to weak counterparties or sectors, or those that are inherently weaker and non-systemically important—such as some nonbank financial institutions.
Gaming
Revenue recovery remains intact across the region

What do we expect over the next 12 months?

- Gaming revenue in Singapore, Malaysia, Australia, and New Zealand should surpass pre-pandemic levels in coming months.
- In Macao, planned additions to hotel capacity and nongaming attractions should support the mass market; the VIP segment remains weak.
- Cambodia will likely underperform given its previous high dependency on Chinese tourists and junkets.

What are the key risks around the baseline?

**Diminishing rating downside risks for most of our rated issuers.** Quick recovery in visitation and gaming revenue should support operators to restore cash flows and credit metrics in the next 12-24 months.

**Economic headwinds.** Lower disposable income amid slower economic growth could influence travel decisions. Gaming is discretionary and cyclical.

**Growing refinancing costs from higher interest rates.** These will test companies’ management of capital structures and alter their refinancing decisions.

What do they mean for the sector?

**Positive actions for Macao.** We upgraded Las Vegas Sands Corp. (BBB-/Stable/--) in July to reflect a Macao recovery and a strong Singapore performance. We also have Wynn Resorts Ltd. on positive outlook.

**NagaCorp Ltd. is on CreditWatch with negative implications to reflect mounting refinancing risk.** Its US$472 million senior unsecured notes mature in July 2024. Operational missteps, amid slow gaming revenue recovery in Cambodia, may result in inadequate cash accumulation to meet the maturity.

**Development projects could slow the pace of deleveraging.** Global operators such as Las Vegas Sands, Wynn Resorts Ltd., MGM Resorts International, and Genting Bhd. all have resort development plans or interests in the U.S. or other regional markets (such as Singapore, Japan, etc.). In Macao, high investment commitment under the new concession would need to be matched with a quick recovery in gaming revenue for deleveraging to happen.
Insurance
High rates and market hurdles test capitalization

What do we expect over the next 12 months?
- Stable credit trends prevail, while encountering rising asset risk and shifting reinsurance capacity.
- Market swings and forex risk could weigh on earnings.
- Strained underwriting results as frequency of extreme weather events and reinsurance costs rise.

What are the key risks around the baseline?

Persistent capital-market obstacles. Sharp and prolonged market volatility and rising forex hedging costs could hit insurers’ capital and earnings. This may amplify spillover effects from other regions’ risk events. Insurers with a large portion of overseas investment will be more vulnerable to such development. Insurers’ chase for yield in the past could raise credit risks.

Shifting reinsurance capacity. Changing risk appetite among global reinsurers could reduce aggregate reinsurance capacity. This would lead to increased reinsurance costs. Together with a pick-up in insurance claims due to normalizing mobility, the rising frequency of extreme weather events, and the impact of nonmodeled secondary perils, underwriting margins may come under strain.

What do they mean for the sector?

Market swings could dent capital and earnings. Equity market volatility weighs on insurers’ investment returns, diluting their capital buffers. Still-high interest rate differentials will keep hedging costly. Except for China, rate hikes across the region could dent asset valuations and result in unrealized losses, despite easing pressure for reserve provisioning.

Compressed insurance margins. Rising reinsurance costs could disrupt nonlife insurers’ risk mitigation plans, weighing on nonlife insurers’ profit margins. Further, some insurers may struggle to pass this increased cost to customers. Global climate change and rapid urbanization across emerging Asia could raise catastrophe-related insurance losses.

Significant change in financial statement position. IFRS 17 and new regulatory frameworks could result in changes to strategies and key performance indicators. Insurers also face higher operational resources.
Asia-Pacific Sector Roundup Q4 2023: A Skewed Recovery

Media And Entertainment
Economic concerns are increasing uncertainty for an advertising recovery

What do we expect over the next 12 months?

- Chinese ad-driven online media platforms are key beneficiaries of advertising spending recovery, while e-commerce firms face intense competition and shifting consumer spending patterns.
- Inflation and soft growth remain key concerns for Asia-Pacific. Slower economic activity could inhibit consumers, and, therefore, e-commerce activity and advertising spending.
- In the event of an economic slowdown, most Asia-Pacific media and entertainment companies have sufficient financial buffer to withstand the shock.

What are the key risks around the baseline?

**Concerns on economy could dampen China's consumer spending recovery.** China's advertising spend recovered in the first half of this year, benefiting from advertisers' more positive outlook on consumer spending. However, this could change throughout the second half of 2023 to year-end, as economic concerns result in a retrenchment of consumer and advertising spending. There are already shifts in China's e-commerce spending toward "value-for-money" purchases, limiting the recovery for some e-commerce incumbents that rely on big-ticket or discretionary spending.

**Intense competition is squeezing margins and cash flows.** Internet companies across Asia-Pacific are also facing intense competition from existing and newer entrants. In China, short-form video platforms are entering into segments long dominated by incumbents such as e-commerce, food delivery, and games. In other regions, competition for the nascent businesses remains stiff, such as e-commerce in Southeast Asia.

What do they mean for the sector?

**Advertising-driven social media platforms remain the biggest beneficiaries.** Online social media companies remain the main beneficiaries this year should retail spending remain healthy. Despite signs of slowing consumer spending in China, retail sales are still growing. On the other hand, Chinese e-commerce platforms face intense competition and shifting spending patterns.

**Most Asia-Pacific companies within the sector have sufficient financial buffers.** Most of our rated media and entertainment issuers are net cash or have large financial buffers to withstand slowing economic growth and rising interest and inflation.
Metals And Mining
China demand remains soft

What do we expect over the next 12 months?

- China’s demand recovery will be slow; manufacturing and property sectors are still struggling with no large-scale stimulus in sight; weaker growth in the U.S. and Europe continues to drag on metals demand and Chinese exports of refined metal products.
- The short-term supply outlook is improving for most of the industrial metals as the influences of the Russia-Ukraine conflict and La Nina wane.
- The pace of China’s economic recovery and contrasting macroeconomic signals from different economies will continue to determine the direction of metals markets.

What are the key risks around the baseline?

**Economic pressure looms.** Our current base-case price assumptions assume a sticky slowdown, but risks of a harsher downside persist. The U.S. and Europe could experience heavy GDP contractions. China’s property sector continues to weigh on the economic growth in the country, and on demand for some metals.

**Geopolitical risks escalate.** That, and how they unfold, further limit price visibility.

**Lower prices and inflationary pressure erode margins.** Margins and cash flows are dropping as prices moderate and costs stay sticky. This is more prominent for downstream players, such as steel companies. More steel mills in China saw margin contraction in early August. The situation may persist despite of production curbs.

What do they mean for the sector?

**Credit quality is generally good in the sector, but credit buffers could narrow.** The credit quality for many issuers in metals and mining has been improving with greater capital discipline and lower debt in the past two years. Most issuers can withstand further price pressure before testing our downside credit threshold.

**Margin erosion** as cost structure remains pressured by key input costs such as energy, labor, and logistics.

**Less earnings visibility amid high volatility in prices for commodities and energy.** This is the result of different catalysts, including economic uncertainty, currency swings, and geopolitical risks.
Oil And Gas
Supportive hydrocarbon prices to continue in 2023

What do we expect over the next 12 months?

• Demand from China remains a key watchpoint; government stimulus is yet to have a material impact on economic growth.

• Brent oil prices will likely average US$85 per barrel in 2023 through 2025. OPEC+ production cuts of 2 million barrels per day and the U.S. Department of Energy’s plan to refill the Strategic Petroleum Reserve support the price of oil.

• A subdued earnings outlook may affect investment decisions and hinder the region’s effort to address the energy transition.

What are the key risks around the baseline?

Persistent concerns over demand. China, India, and Southeast Asia collectively account for about 70% of the global demand growth, which will likely be 2 million barrels per day in 2023, and 1.9 million barrels per day in 2024. However, demand from China remains fragile as the government’s recent easing measures has not sufficiently lifted economic growth. A more material government stimulus plan is uncertain.

Modest supply risks. Product cuts from OPEC+ and Saudi Arabia have marginally propped up oil prices, but the impact is unlikely to last, given output from non-OPEC+ will fill any supply gaps, and Russian oil exports remain resilient. The U.S. Department of Energy’s refilling of the Strategic Petroleum Reserve could support prices in the short-to-medium term. Increased prices stemming from geopolitical uncertainty remains an upside risk over the foreseeable period.

Pressure on climate-related investment. Windfall earnings in 2022 have prompted rated oil and gas companies in Asia-Pacific to invest in renewable projects, including hydrogen initiatives. However, a subdued earnings outlook driven by demand concerns may prompt some producers to address increased leverage. Rising interest rates may also defer climate-related investment.

What do they mean for the sector?

Uncertain demand-supply prospects. This could create downside risks that depress earnings. Geopolitical turbulence and the uplift this gives to energy prices, while positive to earnings, could lead to large swings in producers’ inventory gains and losses. Rising interest rates will likely cause the industry to curtail its spending. Balancing investment needs and maintaining prudent financial policy will be crucial amid volatilities and strained earnings over the next 12 months.
Public Finance
Fiscal divergence amid persistent external tests

What do we expect over the next 12 months?

- Inflation and high rates in Asia-Pacific (except China) are weighing on local and regional governments (LRGs) and their associated enterprises.
- Local governments in China, Australia and New Zealand will continue to spend on large infrastructure pipelines resulting in growing debt levels.
- Tail risks include lower-tier Chinese LRGs failing to restore confidence amid the property slowdown and inflation amplifying strains as New Zealand LRGs continue to spend.

What are the key risks around the baseline?

**Economic slowdown.** Persistent inflation, high interest rates, and downside risks to the global economy could further squeeze the region’s consumption, supply chains, and economic growth, leading to declining revenues or slower revenue growth for LRGs.

**Property market correction.** Most LRGs in the region are fiscally dependent on revenues tied to domestic property sales and prices. China’s slow property sector, in case of a “descending staircase” correction, would delay local recovery and market confidence.

**Policy shifts.** To ameliorate the economic slowdown and restore confidence, select LRGs could roll out aggressive fiscal stimulus, including tax cuts and additional spending. Major water reforms in New Zealand may alter its public finance system depending on the central government election in October 2023.

What do they mean for the sector?

**Delayed fiscal recovery.** Some LRGs could push forward aggressive fiscal stimulus, including tax cuts or more spending, disrupting their fiscal recovery and lifting debt.

**Resumption of leveraging SOE investments in China.** Chinese LRGs may add to leverage if they let their SOEs use debt to support public investment to stimulate local economic growth, while also committing to support the entities in a stress scenario. China’s increased tolerance of SOE defaults, meanwhile, may stymie or otherwise disrupt local economies.

Rating distribution

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<th>Rating</th>
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<tbody>
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</table>

As of August 31, 2023.
Source: S&P Global Ratings.

Outlook distribution

- **Stable** 87.5%
- **Negative** 12.5%

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Asia-Pacific Sector Roundup Q4 2023: A Skewed Recovery

Real Estate Development
China’s property sales could descend a staircase in 2023-2024

What do we expect over the next 12 months?

• The potential default of Country Garden may further dent homebuyer confidence in China.
• Hong Kong’s property prices may dip in 2024; demand appears softer than we previously expected.
• Limited new supportive regulatory policies will result in largely flat Indonesia residential property sales.

What are the key risks around the baseline?

Another credit-stress event adds to property-sector weakness in China. Country Garden, one of the country’s largest and most successful private developers, has missed interest payments on two offshore bonds and has suspended trading on 11 onshore bonds. We believe these events will hit already-fragile confidence.

Slower than expected volume recovery in Hong Kong. Primary transaction volumes only rebounded 19% during January-July 2023. This compares with our expectation of a 45%-65% rebound for the full year. In our view, this is due to elevated interest rates and softening economic growth.

Indonesia sales momentum is likely to slow for the remainder of 2023. Developers will exercise caution with new launches prior to the presidential election campaign, which starts in October 2023.

What do they mean for the sector?

The chance of China’s property sales approaching our bear case is increasing. Despite moderate sales growth in the first five months, we think our 2023 base-case sales forecast of RMB12 trillion-RMB13 trillion now looks challenging. In our bear case, we believe sales could reach RMB11 trillion in 2023, and RMB10 trillion in 2024.

Hong Kong’s property prices could dip in 2024. To clear inventory, developers may resort to further price cuts to boost sales. Primary inventory rose to its highest level since 2003 at the end of the second quarter of 2023. Developers’ property sales margin will likely trend down as a result.

Indonesia developers’ free operating cash flow will remain thin. This is a function of stagnant sales and higher construction costs and capex. Cash positions will decline as developers service domestic amortizing bank loans, which form a larger part of developers’ capital structure than two years ago.
Real Estate Investment Trusts
Hong Kong and Australia commercial properties are under strain

What we expect over the next 12 months

- Office assets remain under pressure from hybrid working, economic uncertainties, pressure on corporate earnings and oversupply of lettable office space in key gateway cities. Valuation pressure will become more apparent for Asia-Pacific office landlords.
- Logistics, hospitality, and retail (nondiscretionary) assets remain well supported.
- A more muted pace of acquisition and development given higher financing costs and reduced credit metric headroom.

What are the key risks around the baseline?

Higher for longer financing costs could further erode credit quality. Higher interest costs will become more apparent when fixed-rate debt comes due for refinancing and floating-to-fixed rate hedges are implemented.

Adoption of hybrid working compounds the office segment’s supply-demand mismatch. Structural effects from flexible working practices are not yet apparent, especially in Australia. Office vacancies will rise further.

Valuation declines in the office markets will become more apparent. Capitalization rate expansion and asset valuation declines will be the norm and this will spur asset sales and speed up price discovery.

What do they mean for the sector?

Tougher conditions will reduce buffers. While financial headroom could deteriorate, we expect most rated Asia-Pacific REITs can tolerate the challenging operating and financial conditions. For asset classes that are not facing structural obstacles, we expect valuations to remain largely stable for high-quality assets, given favorable supply-demand dynamics and higher replacement costs.

Office asset valuations under the spotlight. A sharp and sizable decline in office asset values could impinge on credit metrics. In particular, as REIT managers articulate targeted gearing ranges that will be tested. Covenant headroom will decline but will still be manageable for most.

A flight to quality benefits prime assets. Tenants’ preference for prime retail locations and sustainable office buildings will support rated Asia-Pacific REITs, given they own quality assets.

REITs must manage shorter debt maturity profile. REITs’ refinancing risk remains manageable. However, further shortening of debt maturity profile could weigh on their capital structure and credit quality.

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All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. a—Actual. f—Forecast.
Source: S&P Global Ratings.
Retail
Discretionary retailers at risk amid a gloomy consumer environment

What do we expect over the next 12 months?
- Discretionary retail spending slides as the weight of persistent inflation, elevated interest rates, recession risks, and increasing unemployment take hold.
- Retailers to sharpen their focus on operational efficiencies as rising costs and shrinking consumer budgets constrain earnings and threaten credit quality.
- Tougher refinancing conditions for speculative-grade issuers with weaker profitability and higher debt levels; issuers with unhedged floating-rate debt remain particularly exposed.

What are the key risks around the baseline?
- Consumption recovery stalls. Recent consumption momentum in China stalls, limiting the consumption boost that Asia-Pacific domestic economies need while growth is scarce.
- Ability to pass through higher costs dwindles. Consumers become less willing and able to absorb higher shelf prices, opting to trade down to lower-priced alternatives. Retailers need to remain competitive on prices to maintain market share, squeezing margins.
- Refinancing on favorable terms will be tricky. Retailers refinancing fixed instruments will face much higher rates, reducing their interest coverage ratio cushions. Those with higher debt levels and weaker profitability will find raising debt challenging.

What do they mean for the sector?
- Profitability squeeze. As retailers’ ability to pass on higher input and operating costs to cash-constrained consumers diminishes, EBITDA margins begin to buckle. Rating buffers reduce and credit quality weakens.
- Working capital management is crucial. As cost-of-living pressures force consumers to forgo discretionary purchases, retailers carrying excess or more seasonal products are potentially at risk of being left with inventory that consumers no longer want or can afford.
- Rising cost of debt to have divergent effects. Rising debt costs will test capital structures of speculative-grade issuers. Challenging capital markets will steer investment-grade issuers to a more conservative capital management approach, staying away from large debt-funded investments.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. a—Actual. f—Forecast. Source: S&P Global Ratings.
Asia-Pacific Sector Roundup Q4 2023: A Skewed Recovery

Sovereign
External uncertainties remain significant

What do we expect over the next 12 months?

- Global economic activity and financing conditions remain soft, but not so weak that they create financial volatility in Asia-Pacific.
- Current account balances and inflation in most economies should improve, especially if energy prices reverse their recent gains.
- We still expect some governments to meaningfully lower fiscal deficits, although a return to pre-COVID fiscal performances will take longer in many cases.

What are the key risks around the baseline?

**Sudden capital swings.** An unexpected deterioration of global financial stability, geopolitical risks or interest rate expectations could see investors withdraw from emerging markets in Asia-Pacific, making financing conditions much harder for some.

**Even higher energy prices seriously undermine external and fiscal metrics.** Amid the recent economic uncertainties, current-account deficits could remain wide in some economies as exports fall and fuel prices remain elevated. This could be exacerbated by higher imports in places where governments subsidize energy consumption. A supply shock that raises energy prices sharply could still pose threats to external and fiscal support for ratings.

What do they mean for the sector?

**A sharp increase in funding costs could weaken fiscal support and economic growth.** Higher interest payments are negative for fiscal support to sovereign ratings, especially where government debt is high and nonresidents are important sources of funding. If higher financing costs also significantly affect economic growth, it could exacerbate the hit on fiscal performance.

**A further rebound of energy imports can damage external support for some Asia-Pacific sovereigns.** Net external indebtedness would weaken where current account deficits persist or widen because of energy imports. Additionally, this deterioration could worsen investor confidence to raise financing costs further. These deteriorations could damage the credit support of some sovereigns.

Rating distribution

Outlook distribution

Note: As of August 31, 2023. Includes public ratings only, and ratings on policy-related financial institutions and corporates. Source: S&P Global Ratings.
Structured Finance
Slowing economic activity to weigh on consumer confidence

What do we expect over the next 12 months?

- We expect only modest weakening in asset performance in coming months because employment remains at low and stable levels across markets.
- Cost-of-living pressures and higher interest rates will stretch serviceability, which we expect to translate to higher delinquency levels.
- Consumer confidence is weak across several markets, discouraging purchases and dampening the outlook for households; this will be reflected in lower loan volumes.

What are the key risks around the baseline?

**China's housing sector risk.** Chinese housing market sentiment, and overall consumer sentiment, remain in a delicate state. A prolonged weakening of sentiment will weigh on house prices and resale values.

**Rates and inflation.** Australia and New Zealand continue to grapple with higher interest rates to tackle inflation. This is translating into some borrower cohorts facing strains from both higher costs of living and higher mortgage repayments. While Japan is not experiencing high levels of inflation, we consider modest increases to be meaningful for the country, after years of low interest rates and persistent deflation. In our view, inflation could stress household finances if it is not accompanied by a growth in real wages.

What do they mean for the sector?

**Issuance is likely to diverge.** Lower lending activity and concerns around macroeconomic factors could see less issuance of structured finance assets. We have revised our expectation for China's structured finance issuance to be down about 8% for the year.

**Delinquencies to rise.** We expect delinquencies to likely increase across most markets and asset types, particularly those exposed to rapid interest rate increases. However, this is off historically low levels and is generally supported by low and stable employment trends. Delinquency levels for asset-backed securitization and residential mortgage-backed securitization in China stabilized in the third quarter of 2023.

**Structural supports are in place.** Most transactions have or can build supports to mitigate downside risks. Constrained household budgets and the level of refinancing may affect prepayment levels.
Technology
Negative outlooks could take time to improve amid macro uncertainty

What do we expect over the next 12 months?

- Rating pressure remains high among tech companies due to slower economic growth and high funding cost.
- Prolonged semiconductor downturn due to slow industry-wide destocking and weak end demand.
- The tech sector has hit a cyclical trough, but the pace of demand recovery and restocking could take time to improve.

What are the key risks around the baseline?

**Global economic softness hits tech firms.** Slowing economic growth in the U.S. and the eurozone, and a weaker-than-expected China recovery will continue to limit the export-oriented tech sector in Asia-Pacific. Geopolitical tensions further expose tech firms to long-term risk in the region.

**Excess inventory is the first roadblock to recovery.** An industrywide inventory correction takes more time with falling demand. We anticipate a slow recovery for the semiconductor sector due to soft end-market demand. We expect semiconductor sales will drop about 10% in 2023 as the global supply chain resets inventory.

**Narrowing financial buffer.** Most rated Asia-Pacific technology hardware issuers have enough cash flow and leverage buffer to withstand a moderate shortfall in revenue and profitability. However, a prolonged downturn in demand could reduce headroom.

What do they mean for the sector?

**Lower global IT spending.** We cut our projections for IT spending growth in 2023 to 2.2% in June, from 3.3% in January. More cautious budgets in both consumer (PC, smartphones) and enterprise (servers) have put pressure on IT spending.

**Increasing cash flow volatility amid inventory correction.** Higher cash flow volatility for rated hardware companies during the downcycle in 2023, with declining operating cash flow before meaningfully destocking.

**Negative outlooks could take time to improve** owing to weak macroeconomic conditions and rising rates.

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Note: All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.
Telecommunications
The balancing act continues

What do we expect over the next 12 months?

- Telecom operators' earnings will rise mildly from increased mobile data traffic, wireline adoption, and the return of roaming revenues. 5G monetization will remain limited.
- Average capex intensity should ease but stay high. Capex risks diverge across markets, hinging on the progress of 5G rollouts. There is also a rising investment focus on digital infrastructure, such as data centers.
- Sale and leaseback trends for mobile towers should slow, while telcos look to monetize other assets to rein in leverage.

What are the key risks around the baseline?

**A need for more 5G capex.** This is even for telcos that have launched 5G and already have high population coverage. Tower building or leases could rise as 5G demands denser tower and small-cell coverage. Telcos that have rolled out non-standalone 5G may face another investment wave as they move toward standalone 5G. Sporadic spectrum buys could also exacerbate leverage stress.

**Competition limits earnings upside.** Operators in markets with new entrants, such as in the Philippines, or those with growing mobile virtual network operators, such as in Korea, could adopt more cautious pricing.

**Rising investment in growth engines could raise leverage.** Telcos have been investing in new growth engines, particularly in data centers, to boost growth. Such investments, if debt-funded, can erode rating headroom, particularly as these new earnings streams take time to ramp up.

What do they mean for the sector?

**Telcos cannot depend on rising earnings alone to fund growth.** While 5G mobile plans for retail consumers typically command higher average revenue per user (ARPU), adoption rates in many Asia-Pacific markets remain too low to boost overall ARPU. Additionally, macro uncertainties could lead to consumers delaying discretionary upgrades, or even trading down. In contrast, growth investments are necessary for competitive parity and cannot be delayed. Telcos will have to turn to other avenues to relieve balance sheet pressure.

**Leverage balancing act remains key.** We believe telcos will move from selling towers to selling other passive infrastructure assets. We see signs of this as some telcos restructure their businesses, which could facilitate subsequent divestments. This will create balance sheet capacity for continued investments into connectivity, as well as investments further away from the traditional connectivity business to boost longer-term growth.
Transportation Cyclical
Robust air traffic demand, decelerating freight

What do we expect over the next 12 months?

- Asia-Pacific airlines will close the recovery gap with other regions and high yields should mitigate rising labor and fuel costs. Profitability, however, could moderate, as peak demand eases.
- A growing supply-demand imbalance in container shipping will continue to pressure freight rates.
- The decarbonization agenda to regain importance as transportation operators gradually transition toward cleaner energy and more fuel-efficient models, as they move toward the net-zero targets.

What are the key risks around the baseline?

**Economic slowdown.** A recession could derail the pace of recovery for aviation, and further weigh on freight operators with exposure to consumer demand. Postal companies continue to face tough conditions amid structural declines in volumes.

**Elevated interest rates and costs.** High rates, though slowing, will keep funding costs elevated. That, along with labor inflation and high oil prices, could pose risks to earnings recovery. Lower-rated entities with upcoming debt maturities could face elevated liquidity and refinancing risks.

**Supply side constraints, despite some easing.** Delays in new aircraft deliveries, backlogs in aircraft maintenance, engine and staffing issues continue to weigh on aviation by limiting capacity restoration.

What do they mean for the sector?

**Sustainability of airlines’ profitability is uncertain.** Pricey tickets could weaken demand as passengers contend with inflation, and are less willing to splurge on subsequent travel. We also see potential for load factors to decrease as airlines restore capacity. These factors could weigh on earnings margins. Air cargo will face further freight-rate corrections amid subdued global trade.

**Tankers will fare better than container lines.** Despite recent OPEC+ production cuts and signs of slowdown in the global economy, the tanker outlook remains supported by low order books, and a lingering war in Ukraine increasing ton-mile demand. On the other hand, container trade will experience a more muted peak demand, with supply outpacing demand.

**A refocus toward a green agenda and growth aspirations could mean higher capital expenditure.** Freight operators could invest in more fuel-efficient fleets, following reductions in capex during the pandemic, as well as supply constraints lengthening delivery schedules. This could limit meaningful deleveraging.
Transportation Infrastructure
Growth amid economic challenges

What do we expect over the next 12 months?
- Passenger-related assets should see continued growth, albeit at different rates.
- Capital expenditure will be contingent upon demand growth, interest rates and individual asset circumstances. China is tapering its appetite for new projects and focusing more on "key" ones under central oversight.
- Inflation is not expected to affect patronage generally but persistent high inflation in Australia may slow leisure-based growth.

What are the key risks around the baseline?

Path of economic growth. Downside risks could threaten ongoing improvement in passenger-related assets. In China, the sustainability of traffic recovery hinges on economic momentum over the next 12 months.

Inflation persists in some markets. Inflation is not uniform across markets. Where inflation is higher, such as Australia, consumer demand to spend and travel may be crimped.

High interest rates in some markets may pressure borrowers. This could be acute, particularly for issuers more reliant on dollar funding, those with lower interest rate hedging, or those with large refinancing or capex needs.

What do they mean for the sector?

EBITDA margin improvement. Robust traffic recovery and consumer spending in Indian airports will lift non-aeronautical revenues, supporting higher margins. Chinese issuers will see a restoration of profitability due to significant traffic rebound from 2022. Australian toll roads are benefiting from inflation linked toll increases.

Patronage should continue to grow with the performance of economies influencing the rate. Traffic recovery through Indian airports has been outpacing most regions with both domestic and international passenger traffic surpassing pre-COVID levels in the current fiscal year. Australian airports continue to experience healthy growth. Mainland China airport passenger levels are almost back to 2019 levels, but international travel remains subdued. Recovery at the Hong Kong airport has improved recently.

Funding costs in bank and domestic bond markets are benefiting issuers across parts of the region. Indian issuers experience continued access to domestic banks and the onshore bond market where costs are cheaper than offshore. Chinese issuers also have access to favorable funding costs.
Utilities
Investment acceleration and high interest rates keep leverage high

What do we expect over the next 12 months?
- Continued large spending of renewables (including grid and storage) and coal-fired capacity (for energy security) will keep leverage at high level.
- Regional demand growth is likely to keep steady at the mid-single-digit percentage.
- An overall negative rating bias is gradually improving under volume recovery and subsiding fuel cost, despite uneven cost recovery throughout the region.

What are the key risks around the baseline?

**Inflation and high interest rates to bite.** Fuel cost pass-through is in place in most markets, but may not be even across all entities. High interest rates in most markets could alter funding options and costs for most entities, except in a few countries with low inflation (including China).

**Accelerated new investments and funding needs.** We view excessive debt funding of new developments, adverse regulatory reforms or interventions, and grid constraints as risks. Capex will focus mainly on renewables, integrated hybrid projects, grid and energy storage, or renewable acquisition. This could be exacerbated by any demand slowdown and, likely, more frequent extreme weather.

**Supply chain and geopolitical issues.** These remain a risk to the cost and timely completion for new projects, depending on the stage of development. Companies may still have to factor this risk in budgeting and capex delivery processes. Chinese issuers benefit from the country’s dominance in the solar and wind supply chain.

What do they mean for the sector?

**New capacity rapid increment could weigh on utilization.** Spending boom in the name of either energy transition or energy security could potentially lead to overcapacity, even more so amid the lack of contractual protection in some Asian markets.

**High working capital needs due to cost recovery delay and electricity-price volatility in some markets.** In China, tariffs are likely to remain stable in keeping with largely regulated fuel costs.

**Liquidity risk: restrained access to funding could increase interest costs and lead to capex reviews.** Most rated Chinese players benefit from financing support.

Note: All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.

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Appendix 1
Related Research

- Credit Conditions Asia-Pacific Q4 2023: China Downside Risk Is High, Sep. 26, 2023
- China Still Has More Policy Tools To Stabilize The Higher Tier Property Markets, Sep. 26, 2023
- Economic Outlook Asia-Pacific Q4 2023: Resilient Growth Amid China Slowdown, Sep. 25, 2023
- China's District And County Recovery Crimped By Property Slide And Debt Checks, Sep. 13, 2023
- China Policy Patches Alone Won't Fix LGFVs' Fraying Liquidity, Sep. 7, 2023
- Broadening BRICS May Have Limited Economic Benefits, Sep. 5, 2023
- Chinese Developers' Profitability Is Searching For A Trough, Sep. 4, 2023
- How The Property Downturn Is Hitting Asia-Pacific Banks, Aug. 31, 2023
- Credit FAQ: Will Country Garden's Woes Further Hobble China's Property Market?, Aug. 16, 2023
- Credit FAQ: What Are China's Options To Resolve Local-Government SOE Debt Risk?, Aug. 3, 2023
## Appendix 2
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## Asia-Pacific Sector Roundup Q4 2023: A Skewed Recovery

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