APAC Consumer Products And Retail:
Outlook In 2024: Spending To Soften

S&P Global Ratings

Sandy Lim
Ryohei Yoshida
Sam Playfair
Jan. 24, 2024

This report does not constitute a rating action.
Agenda

Section one  Inter-Regional Trends
Section two  Regional Trends
Section three  Notable Rating Actions
Section four  Rating/Outlook Distribution
Section five  Related Research
1. Inter-Regional Trends
Key Takeaways

Asia-Pacific consumer products & retail outlook

• Topline growth is set to slow in 2024 across major Asia-Pacific countries as consumer sentiment remains weak, and as issuers have already reaped much of the benefits from the removal of COVID mobility restrictions.

• Reasons behind the weak sentiment differ by region. Chinese consumers face a soft macro-outlook as property weakness drags. Japanese and Pacific consumers are being hit with shrinking real disposal income as headline inflation and elevated borrowing costs in Pacific raise the cost of living.

• EBITDA margin profile for rated corporates are set to broadly weaken across major Asia-Pacific countries. Down-trading will benefit companies focusing on value products, while it could hurt retailers offering a wide range of goods. Companies generally need to spend more on promotion to stimulate demand. Additionally, cost pressures remain elevated in the Pacific region, while the ability of corporates to pass on higher input costs is diminishing.

Ratings outlook

• Stable outlook across our coverage. 90% of our rated issuers are investment grade, which tend to have stronger brands, balance sheets, and more discipline in financial policy to weather macro challenges.

• Pacific entities to see relatively weaker credit metrics as revenue growth and margin deterioration lowers free operating cash flow.
Topline Growth To Slow In 2024 Across Major Asia-Pacific Countries

- Major Asia-Pacific countries—China, Japan, and Australia—will experience lower real GDP growth in 2024.
- Japan and Australia consumption to remain weak, despite lower inflation, amid fading covid savings.
- In China, consumer confidence has been weak since 2022. We are not expecting a meaningful pick-up in 2024.

**Real GDP growth**

**Inflation**

**Consumer confidence**


Source: S&P Global.

Source: OECD.
Pacific Credit Metrics To Face More Strain Than Major Asia-Pacific Countries

- Rated Pacific corporates to see modestly weaker free operating cash flow (FOCF). A decline in capital expenditure cannot prevent a drop in FOCF in 2024. Cost inflation continues to hurt corporate margin profiles, as consumers are less willing to accept further price rises and as such, corporates will have to absorb more of the costs.

- Rated Chinese corporates are likely to reduce shareholder returns as EBITDA trend flattish in 2024, while we expect Pacific peers to increase shareholder returns despite weaker FOCF. Rated Japanese issuer are likely to maintain high levels of shareholder returns (in local currency terms) as markets are increasingly aware of capital allocation including shareholder remunerations.

**EBITDA**

**FOCF and capex**

**Shareholder returns**

E-commerce Penetration Continues To Expand

- China’s online retail landscape is getting more diverse and complex. Traditional e-commerce is facing competition from live streaming and—to a smaller extent—instant retail.
- Japan’s upcoming 2024 logistics problem—a shortage of truck drivers due to new regulatory restrictions—will unlikely hurt online penetration growth as consumer demand from internet shopping remains.
- Pacific to see modest e-commerce penetration growth in 2024 following surges during lockdown through the pandemic (2020-2021).

China leads e-commerce penetration

China online consumption channel mix

E—Estimate. Sources: National Bureau of Statistics (China); Ministry of Economy, Trade and Industry (Japan); Australia Bureau of Statistics; New Zealand Post.

2. Regional Trends For Rated Issuers
Greater China: Issuer Caution Supports Credit-Metric Improvement

- 2024 to see slower growth as the rebound from COVID-19 normalized in 2023. Consumers are deliberate about their purchases as macro concerns on employment, lower wages, and negative wealth effects from property market and investments create an overhang.

- Margin profiles to dip slightly as consumer sentiment softens and corporates step up promotions to encourage spending. Issuers stay cautious with spending and shareholder returns, which in turn supports cash flows and lower leverage.

GDP vs revenue growth

EBITDA margin and leverage

FOCF and DCF

Japan: Stable Cash Flow And Financial Discipline Support Creditworthiness

- Most rated issuers generate a majority of their earnings outside Japan. As such, slowing domestic consumption will have a limited impact on their operational performance. Japanese consumers are trading down as real disposable income decreases.
- EBITDA margin remains stable on markup and cost reduction efforts. Issuers’ globally diversified operations also support stable cash-flow generation.
- Issuers are likely to maintain financial discipline while making growth investments, leaving credit measures stable at sound levels.

**GDP vs revenue growth**

**EBITDA margin and leverage**

**FOCF and DCF**

Pacific: Soft Spending And Higher Costs To Weaken Credit Metrics

- Consumers to tighten spending in 2024 as rising prices hit saving buffers accumulated during pandemic.

- Uncertainty remains on where expenditure will flow. However, discretionary retailers will be impacted first. The ability of corporates to pass on higher input costs will diminish, leading to heightened levels of discounting or other promotional activity to stimulate spending, maintain market shares, and earnings margins.

- EBITDA margin to see further pressure from rising wages, higher rents, energy, transportation and technology costs. Credit metrics such as leverage and DCF are set to weaken as a result.

GDP vs revenue growth

EBITDA margin and leverage

FOCF and DCF

3. Notable Rating Actions
Rating Actions Taken in 2023 Were All Positive

• The positive trend is driven by issuers' commitment to sound financials amid improving operational trends.

There have been two years of net positive actions

<table>
<thead>
<tr>
<th>Issuer Name</th>
<th>From</th>
<th>To</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haidilao International Holding Ltd.</td>
<td>BBB-/Stable</td>
<td>BBB/ Stable</td>
<td>Nov. 6, 2023</td>
</tr>
<tr>
<td>Fast Retailing Co. Ltd.</td>
<td>A/Positive</td>
<td>A+/Stable</td>
<td>Nov. 2, 2023</td>
</tr>
<tr>
<td>Health and Happiness (H&amp;H) International Holdings Limited</td>
<td>BB+/Negative</td>
<td>BB+/Stable</td>
<td>Aug. 28, 2023</td>
</tr>
<tr>
<td>Suntory Holdings Ltd.</td>
<td>BBB/Positive</td>
<td>BBB+/Stable</td>
<td>June 23, 2023</td>
</tr>
<tr>
<td>Aeon Co. Ltd.</td>
<td>BBB/Negative</td>
<td>BBB/ Stable</td>
<td>June 16, 2023</td>
</tr>
<tr>
<td>Seven &amp; i Holdings Co. Ltd.</td>
<td>A/Negative</td>
<td>A/Stable</td>
<td>Jan. 31, 2023</td>
</tr>
<tr>
<td>Fast Retailing Co. Ltd.</td>
<td>A/Stable</td>
<td>A/Positive</td>
<td>Jan. 23, 2023</td>
</tr>
</tbody>
</table>

Summary of rating actions taken in 2023

Source: S&P Global Ratings.
Case Study: Japan’s Fast Retailing (A+/Stable/--) 

- Apparel retailer Fast Retailing saw its outlook raised to positive in early 2023 followed by an upgrade in late 2023.
- The positive rating actions reflected Fast Retailing’s ability to expand earnings and capture market share as demand shifts to lower prices in North America and Europe. The upgrade is a reflection of its strong performance, especially in overseas markets, which also improved the geographic diversification of the firm’s results.
- EBITDA margin outperforming global peers, driven by its supply chain initiatives.

Fast Retailing’s EBITDA margin is resilient compared with peers’

Growing sales for Uniqlo’s offshore business stabilizes profitability

Case study: China’s Haidilao (BBB/Stable/--)  

- Haidilao was upgraded in late 2023. The hot-pot chain operator had a notch taken off in early 2022 when covid-19 outbreaks severely affected the restaurant industry, and Haidilao’s poor timing on rapid expansion caused operations to deteriorate further.

- With consumption weakening, average spending per guests is unlikely to pick up in 2024. Haidilao would likely be cautious with its expansion and spending. This meant that debt leverage will stay low.

Quicker table turnover drives EBITDA improvement

Leverage should be low with modest store openings

Source: S&P Global Ratings, Corporate disclosures.
4. Rating/Outlook Distribution
Rating And Outlook Distribution

90% of rated issuers are investment grade

All ratings are on stable outlook

Only publicly rated names are included. Source: S&P Global Ratings.

Source: S&P Global Ratings.
## APAC Consumer And Retail Ratings Universe

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Consumer and Retail coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bosideng International Holdings Ltd.</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Bright Food (Group) Co. Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Bright Food International Ltd.</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
<tr>
<td>China Mengniu Dairy Co. Ltd.</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>China Tourism Group Corp. Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>China Travel Service (Holdings) Hong Kong Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>COFCO (Hong Kong) Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>Fufeng Group Ltd.</td>
<td>BBB-</td>
<td>Stable</td>
</tr>
<tr>
<td>Golden Eagle Retail Group Ltd.</td>
<td>BB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Haidilao International Holding Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Health and Happiness (H&amp;H) International Holdings Ltd.</td>
<td>BB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Inner Mongolia Yili Industrial Group Co. Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>Jardine Matheson Holdings Ltd.</td>
<td>A+</td>
<td>Stable</td>
</tr>
<tr>
<td>JD.com Inc.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>Midea Group Co. Ltd.</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Tingyi (Cayman Islands) Holding Corp.</td>
<td>A-</td>
<td>Stable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>WH Group Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Vipshop Holdings Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Zhongsheng Group Holdings Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Japan Consumer and Retail coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aeon Co. Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Ajinomoto Co. Inc.</td>
<td>A+</td>
<td>Stable</td>
</tr>
<tr>
<td>Fast Retailing Co. Ltd.</td>
<td>A+</td>
<td>Stable</td>
</tr>
<tr>
<td>Japan Tobacco Inc.</td>
<td>A+</td>
<td>Stable</td>
</tr>
<tr>
<td>Seven &amp; i Holdings Co. Ltd.</td>
<td>A</td>
<td>Stable</td>
</tr>
<tr>
<td>Suntory Holdings Ltd.</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Pacific and Indonesian Consumer and Retail coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coles Group Ltd.</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Fonterra Co-operative Group Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>Astra International Tbk. PT</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
<tr>
<td>Snacking Investments HoldCo Pty Ltd.</td>
<td>B</td>
<td>Stable</td>
</tr>
<tr>
<td>Wesfarmers Ltd.</td>
<td>A-</td>
<td>Stable</td>
</tr>
<tr>
<td>Woolworths Group Ltd.</td>
<td>BBB</td>
<td>Stable</td>
</tr>
</tbody>
</table>

Source: S&P Global Ratings.
### Business And Financial Risk Profile Matrix

<table>
<thead>
<tr>
<th>Business Risk Profile</th>
<th>Financial Risk Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimal</td>
</tr>
<tr>
<td>Excellent</td>
<td>-</td>
</tr>
<tr>
<td>Strong</td>
<td>Japan Tobacco</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>Astra International Fast Retailing JD.com Midea Group Tingyi Yili</td>
</tr>
<tr>
<td>Fair</td>
<td>Bosideng Haidilao Vipshop</td>
</tr>
<tr>
<td>Weak</td>
<td>-</td>
</tr>
</tbody>
</table>
5. Related Research
Related Research

Commentary

• Industry Credit Outlook 2024: Consumer Products - Carryover pricing boosts margins, as volumes stay subdued, Jan. 9, 2024
• Industry Credit Outlook 2024: Retail and Restaurants - Consumers will remain cautious even as inflation eases, Jan. 9, 2024
• Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way, Nov. 27, 2023
• Japan Corporate Credit Spotlight 2023 Sees Little Room For Improvement, Oct. 18, 2023
• China Retail: Tighter Belts, Broader Defenses, Oct. 17, 2023

Notable rating actions

• Haidilao International Upgraded To 'BBB' On Strong Recovery In Operations; Outlook Stable, Nov. 6, 2023
• Japan-Based Fast Retailing Upgraded To 'A+' From 'A' On High Profitability; Outlook Stable, Nov. 2, 2023
• Health And Happiness (H&H) Outlook Revised To Stable On Clear Deleverage Path; Ratings Affirmed, Aug. 28, 2023
• Suntory Holdings, Beam Suntory Upgraded To 'BBB+' From 'BBB' On Recovering Finances; Outlooks Stable, June 23, 2023
• Japan-Based Aeon And Subsidiary Aeon Mall Outlooks Revised Up To Stable On Improving Performance; 'BBB' Ratings Affirmed, June 16, 2023
• Seven & i Holdings Outlook Revised To Stable From Negative On Faster Debt Reduction; 'A' Rating Affirmed, Jan. 31, 2023
• Outlook On Fast Retailing Revised To Positive On Improving Profit Prospects In Broader Markets; 'A' Ratings Affirmed, Jan. 23, 2023
APAC Analytical Contacts

APAC Consumer Products and Retail Analysts

Aras Poon
Associate Director
aras.poon@spglobal.com
Hong Kong

Flora Chang
Associate Director
flora.chang@spglobal.com
Hong Kong

Katsuyuki Nakai
Director
katsuyuki.nakai@spglobal.com
Tokyo

Kei Ishikawa
Senior Analyst
kei.ishikawa@spglobal.com
Tokyo

Ker liang Chan
Associate Director
ker.liang.chan@spglobal.com
Singapore

Lucy Liu
Rating Analyst
lucy.liu@spglobal.com
Hong Kong

Manqi Xie
Associate Director
manqi.xie@spglobal.com
Hong Kong

Puchen Wang
Senior Analyst
puchen.wang@spglobal.com
Melbourne

Ryohei Yoshida
Associate Director
ryohei.yoshida@spglobal.com
Tokyo

Sam Playfair
Associate Director
sam.playfair@spglobal.com
Melbourne

Sandy Lim, CFA
Director & Lead Analyst
sandy.lim@spglobal.com
Hong Kong

Tharkana Kulatunge
Rating Analyst
tharkana.kulatunge@spglobal.com
Melbourne

Victor Kong
Rating Analyst
victor.kong@spglobal.com
Hong Kong