S&P Global Ratings

Consumer Products

Stable input costs to support performance

This report does not constitute a rating action.

Ryohei Yoshida
Tokyo
+81-3-4550-8660
ryohei.yoshida
@spglobal.com

What do we expect over the next 12 months?

Subdued real income weighs on consumer confidence across the major economies.

Profitability remains stable thanks to past markup efforts by consumer goods companies and lower input cost inflation.

Prudent financial policies will support the credit profiles of consumer-product companies.

What are the key risks around the baseline?

Price competition intensifies. Lower input costs, when combined with weak consumer confidence, could constrain markup behavior by consumer goods companies. This adds to consumers' tendency to trade down to cheaper, no-brand goods in such circumstances, which could benefit private-label brands.

Subdued spending in China. Continued uncertainties in the real estate sector sap consumers' spending appetite. Tight household budgets and higher propensity to save will drive consumers toward value with their daily purchases, leaving profitability of consumer goods companies under pressure.

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

What do they mean for the sector?

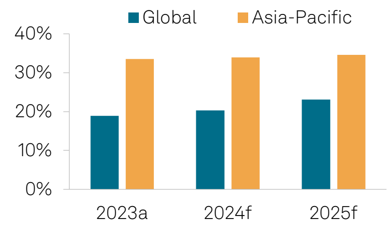
Brand equity matters. High value-add and a differentiated offering enable a firm to protect its profitability in an environment of intensified price competition. Companies without solid brand equity will face fewer opportunities to mark up, thus constraining their ability to drive up profits.

Sluggish recovery in performance. Consumer goods companies operating in China could face a slower recovery in profitability than others due to intensified competitions amid macro headwinds. A further reduction in household spending, depending on the extent of the property crisis' hit to consumer confidence, could hamper their credit headroom.

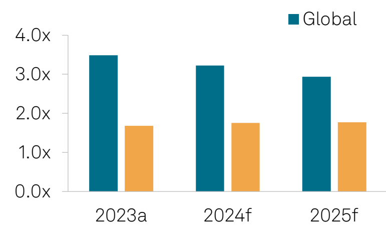
Slower debt growth. Higher funding costs push highly leveraged companies toward prudent financial policies. Tough economic conditions also encourage companies to focus more on their core businesses, rather than engaging in large M&A transactions.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

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.