S&P Global
Ratings

Asia-Pacific Sector Roundup Q4 2024

The Great Divide

Sept. 30, 2024

This report does not constitute a rating action

Editor's Note: This report is an expansion of the "Sector Trends" section from our "Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates" report, published Sept. 25, 2024.

Key Takeaways

- **Mixed signals.** Amid a complicated macro landscape, we see diverging prospects across economies and sectors in Asia-Pacific. We anticipate China's growth will slow further in 2024-2025. On the other hand, the region's emerging markets are riding a still-solid export recovery. Easing policy rates should improve financing for the region's borrowers.
- **Confidence crisis.** China's sticky property downturn and slower consumption are compounding drags on confidence. These are spilling over to downstream sectors and producers reliant on Chinese demand (e.g., building materials, chemicals and consumer-related segments). While the latest round of monetary stimulus could support liquidity in the system, cautious lending appetite and household spending might limit uplift.
- **Geopolitical tensions stoke uncertainty.** Deepening geopolitical dissonance and more trade restrictions are compounding credit obstacles. Some sectors are more vulnerable to this, including metals and mining, technology, and transportation cyclicals. The need to diversify supply chains to manage rising uncertainty, could pressure earnings and disrupt operations for businesses.
- **Some bright spots ahead.** As the Fed kicks off its policy rate easing cycle, the region's central banks will gradually follow suit. Potentially lower offshore borrowing costs could reopen access for borrowers and improve overall financing conditions. An increasingly likely global soft landing benefits Asia-Pacific's manufacturing exporters.
- **Steady net outlook bias.** The net rating outlook bias for Asia-Pacific issuers is steady at negative 2% as of end-August, but sector prospects remain skewed. The chemicals, transportation cyclical, building materials and real estate sectors have the largest negative outlook percentages. Gaming continues to outperform.

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Fed cuts and a soft landing. With the Fed starting to cut policy rates, we expect Asia-Pacific's central banks to gradually follow suit, relieving refinancing pressures on the region's borrowers. Given unique domestic conditions in each market, central banks will take their own paths. Some may ease policy rates (e.g., in Indonesia and the Philippines), and others hold steady (e.g., in Australia where inflation is sticky).

Prospects of a soft landing and interest rate differentials are whetting investors' appetite to seek higher returns in Asian markets. This is driving capital flows into the region and helping domestic currencies regain strength. Stronger currencies can lower the cost of offshore debt and widen financing options for some borrowers. Amid improving financing conditions, the appetite to refinance for expansion and mergers and acquisitions could return, and we anticipate this will take place in the consumer products and utilities sectors.

Striking a balance. China's economy is facing pains and rising risk of systemic deflation. Although recent reports hint at additional fiscal stimulus, its scope remains uncertain.

China's further cuts in mortgages rates, announced on Sept. 24, will weigh on banks' net interest margins and hit capitalization. Against this, authorities are lowering reserve requirement ratios, and the megabanks (the six largest commercial banks) look set to receive capital injections. This would alleviate the burden placed on the major banks to support China's economy, and help bridge their funding shortfall in total loss-absorbing capacity.

More pain. China's property market is still searching for a bottom, with national sales likely to keep falling through the rest of this year and 2025. This is squeezing the downstream value chain, such as building materials, capital goods, chemicals, and metals and mining (notably steel). Soft residential prices and subdued employment prospects are diluting household wealth and dampening demand.

Sectors sensitive to consumer demand, such as auto and discretionary retail, are squeezed the most. Subdued consumption and weak growth will pinch corporate profitability, especially in sectors with overinvestment risks (including power and utilities, manufacturing of raw chemicals, electrical equipment, and auto). In addition, refinancing risk remains acute for some local government financing vehicles (LGFV) as more debt is set to mature. Strains from LGFV debt restructuring hurt China's regional banks' capitalization, curbing their lending appetite.

For Chinese life insurers, lingering asset-liability mismatch is set to worsen amid a larger than expected fall in interest rates and volatile market conditions. Concurrently, rising unemployment could contribute to slower top-line growth and higher lapses in life insurance policies-- affecting profitability of life insurers. The pain is coming from all directions.

For more on China, see:

- "China Insurance: Time For Tough Medicine," Sept. 24, 2024
- "Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins," Sept. 24, 2024
- "Your Three Minutes In China's LGFV Debt Resolution: Buying Time Is Buying Bad Habits," Sept. 4, 2024
- "Where Are China's Overinvestment Risks? What Investment, Utilization, And Leverage Data Show," Aug. 7, 2024.

Geopolitical tensions drive a wedge. The auto, metals, and technology sectors are most vulnerable to geopolitical dissonance between China and the West, which is heightened ahead of the upcoming U.S. presidential elections. Increasing trade barriers will close off opportunities for Chinese auto exports to the U.S and Europe; more trade restrictions could arise if other countries follow suit to protect local producers. Meanwhile, given limp domestic demand for steel, China's increasing exports of steel and end-products could exacerbate trade hurdles.

The tech sector will face more regulatory uncertainty, and efforts to de-risk supply chains from China will continue. Tech hardware companies are relocating operations and adding capacity outside of China, but this is costly and disruptive--especially for midstream players.

Similarly, geopolitics could weigh on sovereign credit metrics. A worsening of conflicts in Ukraine or the Middle East could affect volatility in commodity and financial markets. Likewise, a sudden escalation of U.S.- China tensions in the run-up to the U.S. presidential elections in November could cause political and economic damage.

For more on this, see:

- "The Shifting Of China Tech Supply Chains: The Hard Part Starts," Sept. 2, 2024.
- "Asia-Pacific Sovereign Rating Trends Midyear 2024: Fiscal Strains Rise," Jul. 25, 2024

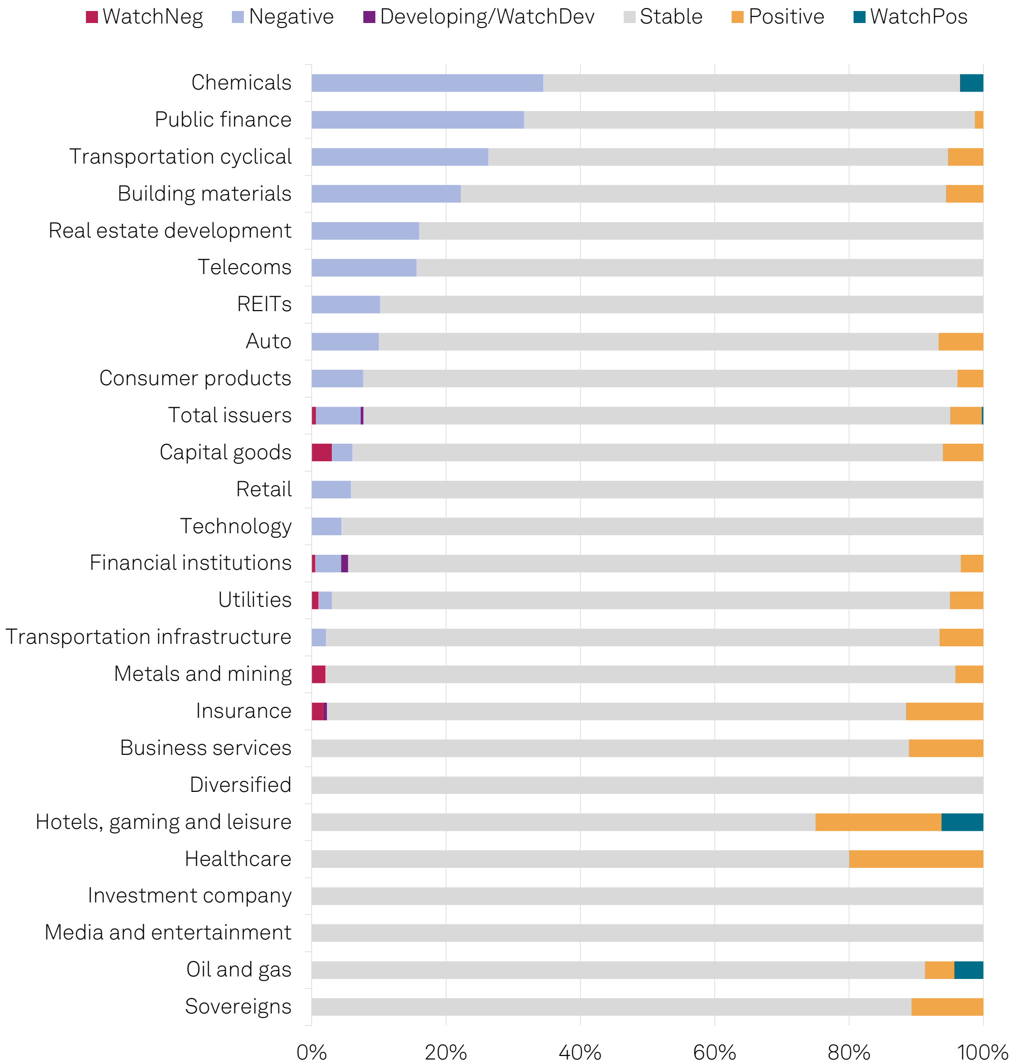
Delays on fiscal consolidation. Deleveraging seems remote for China's LGFVs as spending remains elevated, following directives from their governments (e.g., buying property from local hard-hit developers). Furthermore, revenue will stay weak amid low land sales and softer tax income. Fiscal consolidation could see a further delay.

For local and regional governments (LRGs) in Australia and New Zealand, high inward migration rates have resulted in an infrastructure push. LRGs in New Zealand face additional burdens from national water reforms and disaster-related reconstruction efforts. This keeps capital expenditure elevated, and debt levels and interest costs high (see "Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific Spending Appetite Erodes Creditworthiness," Sept. 19, 2024).

A nuanced landscape. The region's net rating outlook bias is still skewed--deteriorating for auto, chemicals, real estate, telcos, and transportation cyclical; steady to improving for gaming, media and entertainment, and transportation infrastructure. Risks arising from geopolitical tensions, financing challenges, market volatility, and long-term events (such as climate change and the energy transition) affect income and borrower cohorts differently. Likewise, the ability to manage such risks and foot the bill is uneven.

Chart 1

Outlook distribution of Asia-Pacific issuers by sector



Data cut-off is as of Aug. 31, 2024. Source: S&P Global Ratings.

Table 1

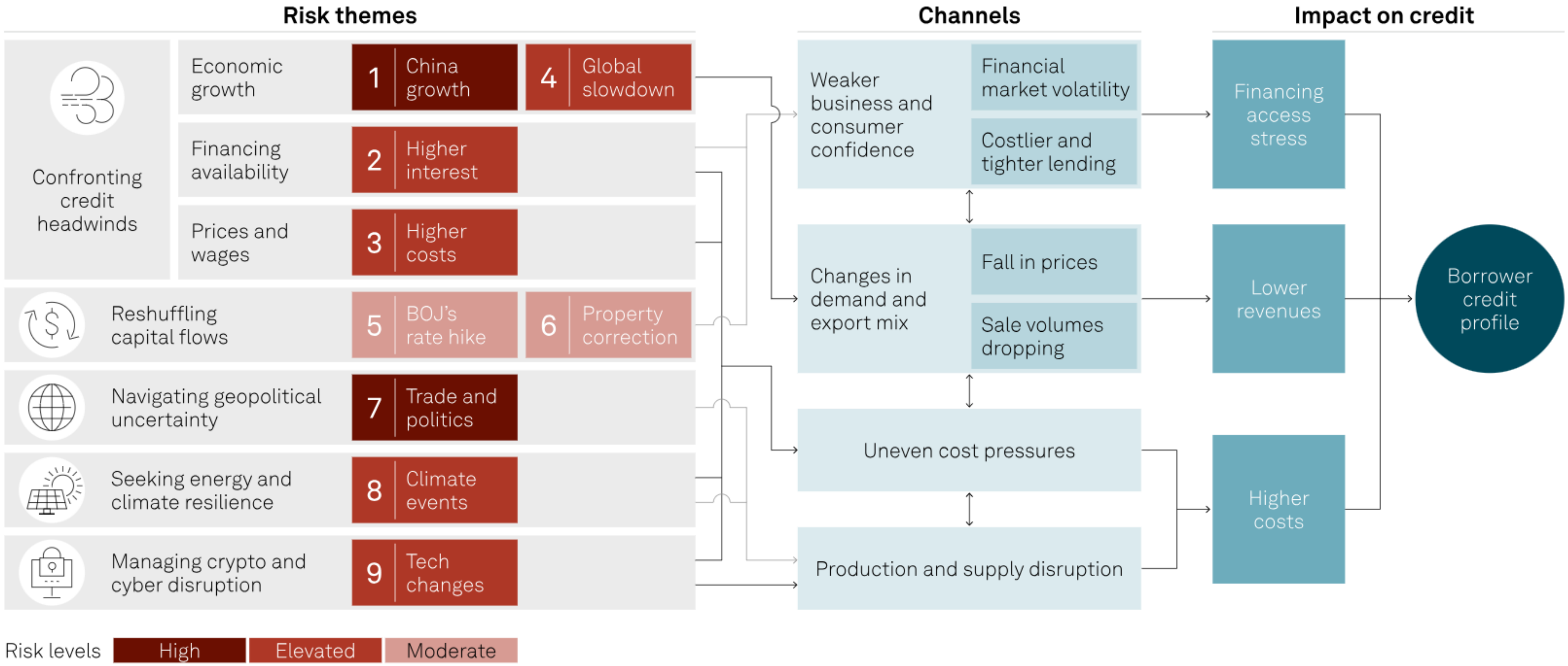
Net outlook bias of Asia-Pacific issuers by sector, Aug. 31, 2024

	Aug. 2023	Oct. 2023	Feb. 2024	May 2024	Aug. 31, 2024	No. of entities	Notional average rating
Auto OEM and suppliers	-6%	-3%	7%	0%	-3%	30	BBB
Building materials	-19%	-19%	-20%	-6%	-17%	18	BB+
Business services	-8%	-17%	-22%	11%	11%	9	BB+
Capital goods	-9%	-9%	-3%	-3%	0%	33	BBB
Chemicals	-3%	0%	-17%	-28%	-31%	29	BBB
Consumer products	-4%	-4%	-8%	-8%	-4%	26	BBB
Diversified	6%	11%	11%	6%	0%	18	A-
Healthcare	0%	17%	0%	0%	20%	5	BBB
Hotels, gaming, and leisure	-6%	-6%	18%	18%	25%	16	BB+
Investment company	0%	0%	0%	0%	0%	6	A
Media and entertainment	-9%	-9%	0%	0%	0%	10	BBB+
Metals and mining	4%	0%	2%	2%	2%	48	BBB-
Oil and gas	9%	9%	5%	4%	9%	23	BBB+
Real estate development	-14%	-11%	-12%	-23%	-16%	25	BBB-
Real estate investment trusts	-19%	-19%	-12%	-8%	-10%	49	BBB+
Retail	13%	13%	0%	0%	-6%	17	BBB+
Technology	-10%	-12%	-4%	-7%	-4%	45	BBB
Telecommunications	0%	3%	-3%	-6%	-16%	32	BBB
Transportation cyclical	-17%	-11%	-10%	-10%	-21%	19	BBB
Transportation infrastructure	-6%	-2%	0%	0%	4%	46	A-
Utilities	-3%	-1%	2%	3%	2%	100	A-
Total corporates	**-5%**	**-4%**	**-3%**	**-3%**	**-4%**	**604**	**BBB**
Financial institutions	8%	8%	8%	0%	-1%	385	BBB+
Insurance	-8%	-1%	6%	9%	10%	174	A
Public finance	-13%	-13%	-31%	-31%	-30%	79	AA-
Sovereign	-7%	-3%	-3%	7%	11%	28	BBB+
Total issuers	**-2%**	**-1%**	**0%**	**-2%**	**-2%**	**1,270**	**BBB+**

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.

Chart 2

Interconnected risks are complicating the credit landscape



BOJ--Bank of Japan. Not all relationships are displayed. Rank-numbered risks are discussed in our "Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates" report; colors denote risk levels: brown--high, red--elevated, light red--moderate. Source: S&P Global Ratings.

Auto

More headwinds than tailwinds

What do we expect over the next 12 months?

- Heightened pricing pressure, and still-high input costs will continue to weigh on automakers' profitability and cash flows.
- Nonetheless, modest volume growth, product-mix improvements, and low leverage will underpin steady credit profiles for most rated Asia-Pacific auto companies.
- Our net rating outlook bias for the sector turned negative from neutral; this after we raised ratings and revised outlooks to stable for two auto makers given resilient margins.

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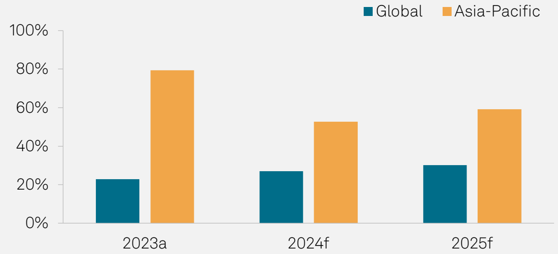
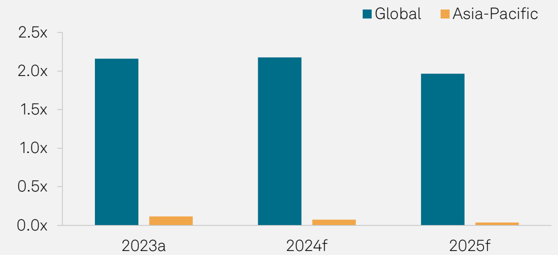
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

Consumption weakness. The prolonged property downturn and the related negative wealth effect could further dampen soft consumer sentiment in China. In the U.S, slower-than-expected future rate cuts could hurt consumer spending. Meanwhile, weaker than expected economic recovery in Europe could constrain consumption.

Rising trade frictions. Geopolitical tension and increasing trade protectionism will weigh on China's exports of vehicles and components to the U.S and Europe. Further trade barriers are likely if other countries follow suit with an aim to protect local producers.

Pricing headwinds. A price war is still underway in China, with auto makers competing for share amid falling demand for gasoline vehicles and rising electrification. Pricing momentum is also set to weaken in Europe through the rest of 2024. In North America, which is another important market for Japanese and Korean auto makers, we anticipate a 10% decline in average new vehicle price from 2023 through end of 2025.

What do they mean for the sector?

Softer demand. Sales growth for global light vehicles could fall short of our anticipated 1%-3% in 2024 amid macro uncertainties. Scrappage subsidies, price cuts and widening EV offerings can still support modest growth in China. However, still high interest rates and new vehicle prices hurt affordability in U.S and Europe.

Margin pressure. Price war and increasing EV sales are margin dilutive for Chinese carmakers. Producers with larger scale, vertical integration and improving product mix will fare better than peers. For Japanese and Korean auto makers, slower electrification in the U.S and Europe, and solid hybrid demand, partially relieve the margin pressure. But cost control and mix optimization remain vital for margin protection.

Building Materials

Asia-Pacific producers face many uncertainties

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 demand uncertainty.
- The ongoing decline in China's property sector is a negative for the building materials industry with fewer new housing starts. In Korea, market sentiment is improving in some prime areas, but the overall construction sector remains weak.
- Solid residential housing demand, driven by growth in net migration, continues to support the Australian building materials market. That said, we expect softer market conditions in the next 12 months with risks arising from high costs, supply chain constrains and extreme weather.

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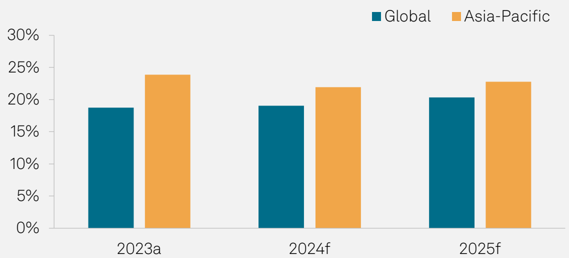
FFO to debt (median, adjusted)



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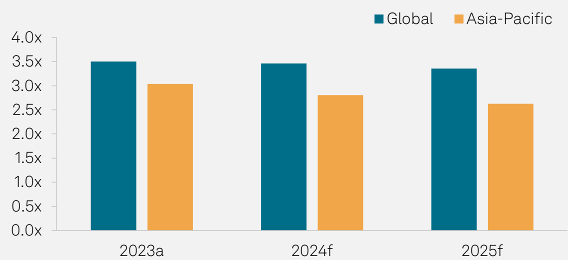

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What are the key risks around the baseline?

A deepening downturn in the Chinese property sector and weak construction sector in Korea. Chinese homebuyers' lack of confidence in delivery, underlined by stronger purchase momentum in the secondary market, is dragging on new construction activity. In addition, China's infrastructure investment growth will continue to moderate over the next 12 months as local governments focus on debt control. In Korea, sentiment is improving in certain prime regions. Overall, however, the outlook is weak for construction sector, on risks from low demand in regional cities, high costs and project financing loans.

Still-high input costs and supply-chain challenges. High raw material and labor costs stemming from inflation, supply constraints, and geopolitical risks outside China are keeping input costs high. Meanwhile, extreme weather risks supply-chain bottlenecks and delays in construction.

What do they mean for the sector?

Ongoing drag on demand. Weak homebuyer confidence and slower economic growth in China will dampen investment into new properties. This is hitting construction and demand for building materials, especially for basic building materials (cement). Other building materials, such as waterproofing material, may fare better with support from rising renovation needs. Weak housing market sentiment outside China due to still-high interest rates will have the same impact.

Pressure on margins. While the price of coal--a key energy source--continues to moderate, still-high raw material and labor costs will likely constrain profitability for building material companies. Such strains will be greater for smaller Chinese players because of their weaker ability to pass on cost amid sluggish demand.

Capital Goods

Solid orders for longer cyclical products will support earnings

What we expect over the next 12 months

- Solid orders for longer cyclical products such as power generation equipment will support earnings, while a slow recovery in China and some end-markets continues to weigh on the earnings of certain issuers.
- Key risks include persistently high interest rates and an unexpected global economic hard landing.
- The demand outlook and degree of margin protection, as well as cash flow management, will be key drivers of credit quality.

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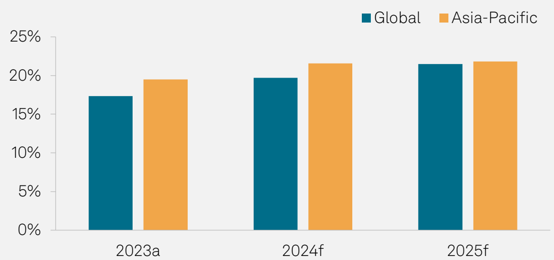
FFO to debt (median, adjusted)



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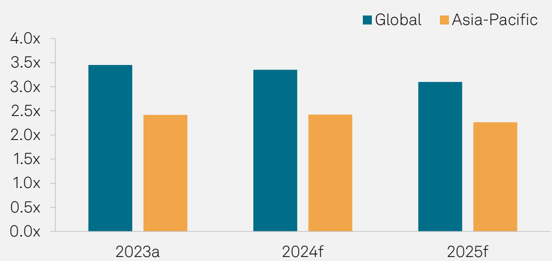

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Source: S&P Global Ratings.

What are the key risks around the baseline?

Slower recovery in China and some end-markets. We expect slower economic recovery in China due to the weak property sector as well as stagnant demand in some end-markets including factory automation for manufacturing. This might keep bearing down on the revenue and profit growth for capital goods companies in Asia-Pacific.

Persistently high interest rates both globally and in Asia-Pacific (ex-China) should continue to cool capital spending by corporate customers (although easing has begun in some markets, and may start soon in others). Although the demand outlook in the U.S. still looks solid, Europe's isn't as much. Some Asia-Pacific capital goods companies--especially Japanese ones--have exposure to the European market.

What do they mean for the sector?

Margin pressure. Weaker demand and soft sales, together with a tough competition, would prevent Asia-Pacific companies from meaningfully improving EBITDA and margins.

Delayed improvement in cash flow metrics. Given our expectation for cautious economic conditions, we assume capital goods companies will carefully manage growth investment and shareholder returns. However, if demand is severely affected by economic slowdown, cash flow ratios could deteriorate.

Chemicals

The worst may not be over yet

What do we expect over the next 12 months?

- Profitability is likely to stay weak, albeit improving marginally, over the next three to four quarters because of tepid demand growth and high oil prices.
- It could take longer for excess capacity to be absorbed with lukewarm demand growth in China.
- A weak EBITDA recovery could slow deleveraging for chemical companies.

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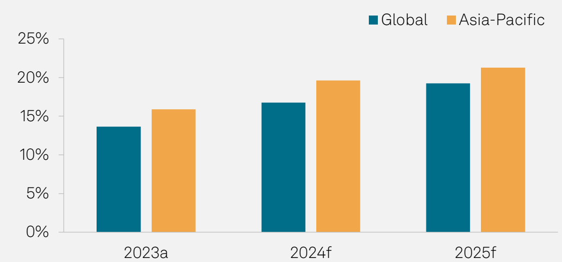
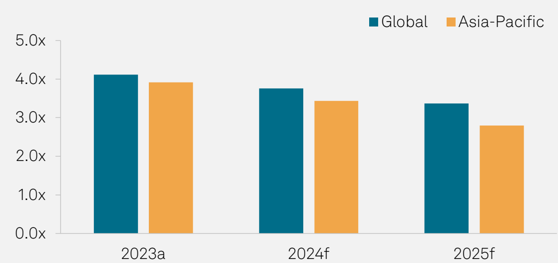
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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What are the key risks around the baseline?

Tepid demand growth. Ongoing weakness in China's property market could prevent a material acceleration in demand growth, despite recovering exports from the region.

Persistent overcapacity. Aggressive capacity additions in China in combination with weak demand growth could prevent a material rebound in utilization, adding to constant pricing and cost pressures for Asia's chemical companies.

A weaker ability to pass through costs. High crude oil prices could constrain the ability of commodity chemical companies to pass through product costs if demand does not pick up sufficiently.

What do they mean for the sector?

Depressed profitability. Chemical companies' profitability could continue to stall for the rest of 2024, keeping the level of profitability below the average of past cycles. Marginal improvement is likely in 2025 as heavy losses force output cuts for some chemicals in deep oversupply.

Slower deleveraging. Deleveraging could slow without a significant improvement in profitability over the next 12 months, despite cuts in capex.

Elevated credit risk. Chronic overcapacity amid growing self-sufficiency in China could elevate business risk for commodity chemical makers. Credit risk stays elevated as persistently weak profitability keeps financial buffers thin for current ratings on some commodity chemical companies.

Consumer Products

Stable input costs and past markups to support performance

What do we expect over the next 12 months?

- Subdued consumer confidence will keep sales volume under pressure while markup opportunities cease.
- Profitability remains broadly stable thanks to past markup efforts by consumer goods companies and moderate input cost inflation.
- Easing financing conditions will gradually prompt companies to turn to more aggressive financial policies.

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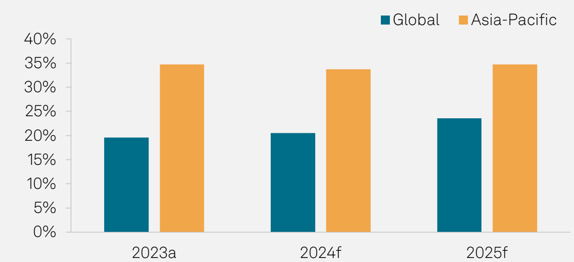
FFO to debt (median, adjusted)



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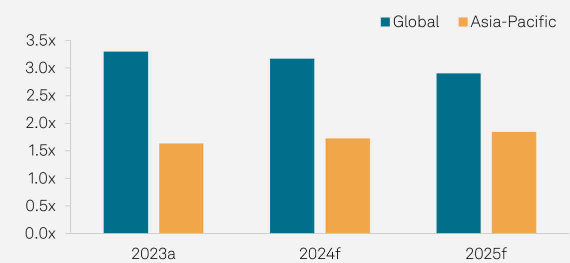

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What are the key risks around the baseline?

Price competition intensifies. Lower input costs 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.

Slow sales volumes growth. Tight household budget may stay even after inflation subsides because real consumer incomes have not sufficiently recovered from past price increases. This will leave sales volume under pressure and constrain profitability in the absence of markup opportunities for the industry.

More aggressive financial policies by companies. While lower refinancing costs ease pressure for companies with highly leveraged capital structures, it creates room for others to turn to more aggressive financial policies.

What do they mean for the sector?

Brand equity matters. High value-add and a differentiated offering enable firms to protect 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.

Operational efficiencies matter. Consumer goods companies could face a harsh environment where both markup and volume growth opportunities are limited. Any missteps in operational initiatives could weaken performance, and hence hamper credit headroom.

Increased likelihood of M&A. Consumer goods companies could incur more debt amid more merger and acquisitions, narrowing credit headroom.

Financial Institutions

Market volatility is likely to persist

What do we expect over the next 12 months?

- Asia-Pacific financial institutions are satisfactorily managing economic and property-sector risks. The vast majority have stable rating outlooks and our base case is for this scenario to continue.
- Market volatility has re-emerged after a period of relative calm. We believe the potential damage to credit profiles during 2024 and into 2025 will be limited for most banks.
- A material economic or property downside scenario outside our base case would be more challenging for banks at current rating levels

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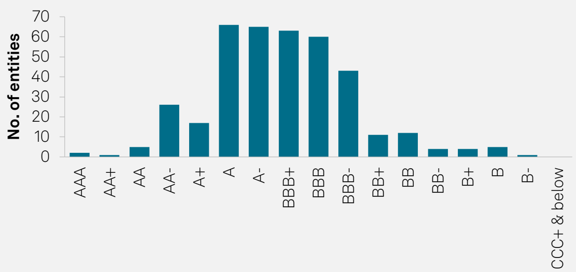
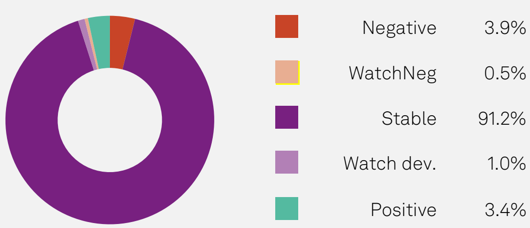
Rating distribution



Outlook distribution



As of August 31, 2024. Source: S&P Global Ratings.

What are the key risks around the baseline?

A material economic downside emerges. Policy missteps at the start of the rate easing cycle for some jurisdictions, or much weaker-than-expected economic growth or employment trends outside our base case would be a greater test for banks' borrowers and asset quality.

Property risks intensify. A worsening of property risks across the region that are under strain, most notably China's, will hit banks.

Structural risks. Many risks due to climate change, cyber, and digitalization are a slower burn for banks but increasingly are anticipated to test banks' business models.

What do they mean for the sector?

Credit losses will increase. We anticipate that Asia-Pacific banks' credit losses will increase in 2024 to over US$500 billion. Capitalization, earnings, and other buffers are adequate for most banks, however.

Greater credit differentiation. More vulnerable are financial institutions with concentrated business and funding profiles, high direct exposures to weak counterparties or sectors; and those that are non-systemically important or don't benefit from strong, committed parent groups.

Governments may yet throw a lifeline. We believe that extraordinary government support is likely (if it were ever required) for systemically important private sector commercial banks across most of Asia-Pacific.

Gaming

Going beyond recovery mode

What do we expect over the next 12 months?

- In Macao, the pace of mass-market growth is set to slow over the next 12 months, give the soft macro in China. But higher visitor numbers and expanded hotel capacity should still provide support.
- In Southeast Asia, gaming revenue in Singapore and Malaysia should further improve, benefiting partly from a visa free arrangement with China. NagaCorp in Cambodia faces challenges in recovering its gaming operations due to the elimination of Chinese junket operators.
- In Australia and New Zealand, soft economic conditions is an overhang on mass gross gaming revenue.

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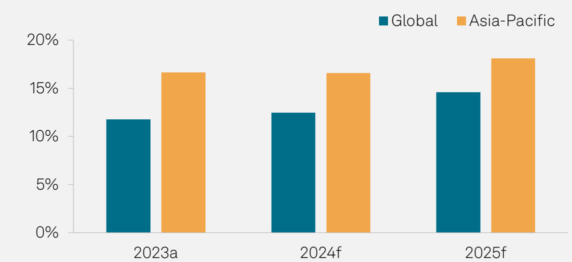
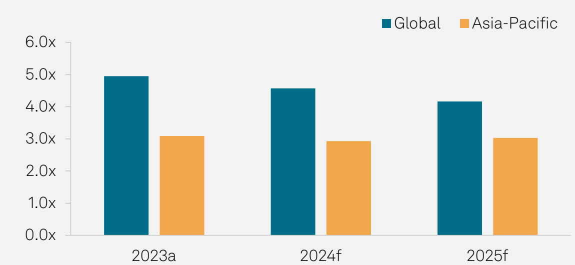
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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Source: S&P Global Ratings.

What are the key risks around the baseline?

Higher capital expenditures for development projects. Global operators such as Las Vegas Sands, Wynn Resorts Ltd., MGM Resorts International, and Genting Bhd. will likely bid for up to three full-scale casino licenses available in New York. Many of them also have development projects underway in other regions of the U.S., and around the world in Singapore, the United Arab Emirates, and Japan.

Economic headwinds. Subdued economic conditions and cost of living pressures are weighing on gaming revenues in Australia and New Zealand. These trends are likely to persist for the remainder of 2024, although recent interest rate cuts in New Zealand may offset some of these negatives. Softer gaming revenues may also materialize across the region, if Chinese visitors broadly pull back from spending on leisure amid persistence soft macro conditions in China.

What do they mean for the sector?

The outcome of New York gaming licenses will be a watchpoint for several rated issuers. The scale of the project could add leverage compared with our base-case forecasts and slow improvement in credit measures, or eat into leverage cushions for others.

Casino operators expanding into Southeast Asian markets. Macao operator Melco Resorts & Entertainment Ltd. is partnering with a local conglomerate on an integrated resort development in central Colombo, Sri Lanka. Thailand is also in the process of legalizing casinos. These markets could be attractive to smaller casino operators with less financial flexibility given their low investment costs relative to developed markets.

Insurance

Market volatility tests capital and earnings resilience

What do we expect over the next 12 months?

- Persistent market headwinds and forex risk could threaten earnings.
- Rising claims from extreme weather and medical inflation test insurers' ability to price for risk.
- Nonetheless, a stable credit trend remains, given adequate capital buffers. Under our revised capital model criteria, more explicit recognition of risk diversification enhances capital buffer, because of its role in helping to withstand market volatility.

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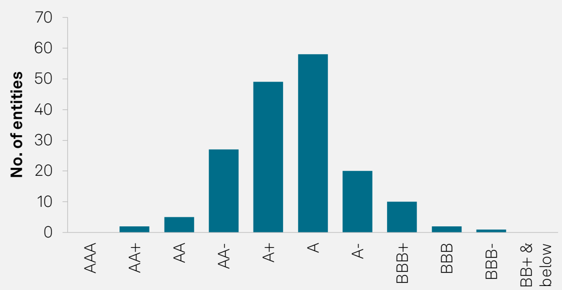
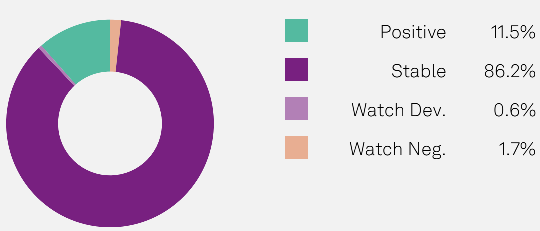
Rating distribution



Outlook distribution



As of August 31, 2024. Includes public ratings only.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Market turmoil intensifies. Escalating geopolitical tensions and sharper-than-expected monetary policy adjustments by some major central banks could heighten capital market volatility. Still high interest-rate differentials, albeit moderating, and forex volatility will keep hedging costly for insurers in Japan and Taiwan. Credit stresses, notably in real estate and alternative investments, could prompt insurers to reassess risk-adjusted returns.

Deteriorating claim experience. Severity and frequency of high-impact weather events raises the specter of higher catastrophe-related claims. Climate-change induced nonmodeled exposure could result in understatement of loss provisions. Higher reinsurance costs, though with returning capacity, could disrupt insurers' risk transfer plans. Persistent medical claims inflation could dilute margins, prompting need for product repricing.

What do they mean for the sector?

Market swings to test investment strategy. Equity market volatility weighs on earnings, diluting capital. Forex risks persist for insurers' unhedged overseas investments (e.g., Taiwan and Japan). Anticipation of rate cuts (ex-Japan) could lead to a review of investment strategies and asset-liability management. Widening spreads and volatility in investment income may cause earnings contraction.

Strained margins. Underwriting profit shrinks as the frequency of extreme weather increases and medical claims inflation intensifies. Costly reinsurance cover could entail higher risk retention by primary insurers, posing risk to margin volatility.

Media And Entertainment

Tepid growth outlook for 2024

What do we expect over the next 12 months?

- Advertising spending growth in China will be stable in 2024, following a recovery in 2023.
- Intense competition and soft consumer spending, particularly in e-commerce, will somewhat offset the effects of stable economic growth in Asia-Pacific. This could erode margins for some issuers.
- Large internet companies have plenty of financial buffer to withstand slowing growth, and further investments to remain competitive.

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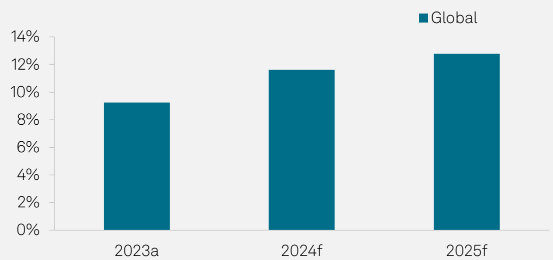
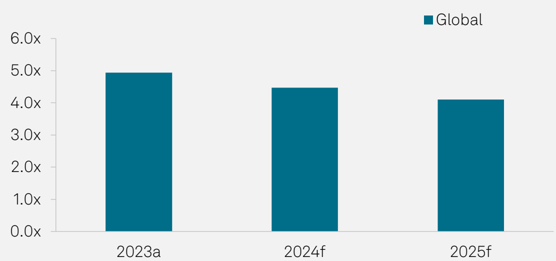
FFO to debt* (median, adjusted)



Debt to EBITDA* (median, adjusted)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. *Metrics for Asian issuers are not included in the chart, as more than half of the Asia-Pacific media & entertainment rated portfolio are net cash on an adjusted basis. FFO--Funds from operations. a--Actual. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Soft economy is a burden to incumbent Chinese online retail platforms. Consumer spending remains geared toward services and value-for-money products. This trend can be a challenge for some online retailers as they adapt their platforms to focus more on bargain products and cost reduction. This could result in further shifts in the share of online retail spending for incumbent platforms. However, revenues and profits for such platforms should remain stable so long as online retail spending continues to grow.

Emerging platforms will continue to pressure ad pricing. Short-form video platforms and other emerging platforms are accelerating efforts to monetize their growing user base. This will weigh on ad pricing for at least the next 12 months, particularly in China. Such efforts include building up e-commerce capabilities on social media platforms or increasing ad load. Growing ad supply and monetization of e-commerce opportunities on social media will spread advertisers' spending across more channels. This could reduce ad prices and allocation to more established social media platforms and other online ad platforms.

What do they mean for the sector?

Stiff competition and evolving user preferences will push online platforms to scale up investments. Companies are under pressure to increase spending on marketing, user experience, and content. Advances in artificial intelligence are creating opportunities for internet companies to invest. Together, they will weigh on profitability and increase capital investments.

Most Asia-Pacific media and entertainment companies have sufficient financial buffers. Most of our rated media and entertainment issuers in Asia-Pacific have dominant market positions and large financial buffers to absorb rising investments, margin pressure, and rising regulatory costs.

Metals And Mining

Uncertainty lingers over demand

What do we expect over the next 12 months?

- Weak growth of base metals consumption in the U.S. and Europe, and still-subdued property construction in China will continue to weigh on demand.
- Divergence in industrial metals is driven by varying dynamics. Supply tightness, energy transitions, and Russia metal sanctions are supportive to some metals, such as copper and aluminum.
- Supply surplus will persist for some other industrial metals and downstream industries, such as China's steel and battery materials, and Indonesia's nickel.

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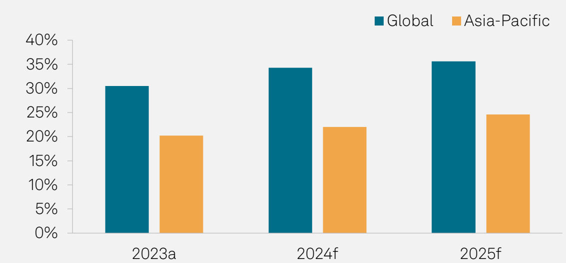
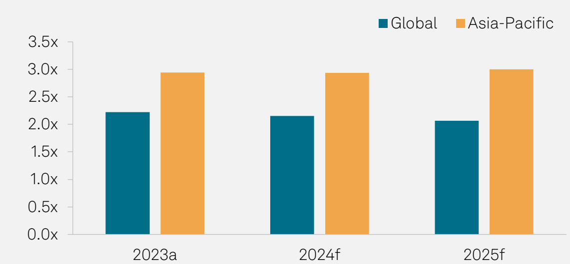
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

Economic pressure looms. Overall global macroeconomic outlook remains mixed with muted demand in Europe and China. Risks of a harsher downside persist.

Geopolitical risks escalate. The uncertainty of how these risks unfold further limits price visibility. The Israel-Hamas and Red Sea conflicts have a limited impact on the metals market for now as they are not the main transportation routes. But coupled with Russia sanctions, these could cause supply disruptions.

Increasing trade restrictions and sharp property market downturn. Chinese steel companies' profitability remains constrained, with low product prices, primarily driven by weak construction activities. Increasing steel exports could heighten trade hurdles in Europe and the U.S. on China's steel and end products.

What do they mean for the sector?

Credit quality of upstream companies has levelled off after a long run of improvement. The credit profiles of upstream mining companies have stabilized. Most issuers can withstand further price pain before testing our downside credit threshold.

Downstream players' profitability is volatile amid macroeconomic uncertainty. Soft end-use demand is limiting passthrough of high material costs for Chinese steel mills. Meanwhile, upstream material prices are volatile, though they remain at a high level despite the moderating macroeconomic trend.

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

As global demand loses steam, delayed OPEC+ production cuts add support

What do we expect over the next 12 months?

- Rising risk around China's economy to raise concerns over Chinese demand growth. The risk of a sharper-than-expected slowdown continues to cloud the global demand outlook despite the Fed's rate cut.
- OPEC+ delays in production hikes is supportive of crude oil prices. We assume the Brent oil price will stay unchanged at US$85 per barrel in 2024, and US$80 in 2025 and 2026.
- Geopolitical tensions have increased concerns over energy security, potentially hindering Asia-Pacific's efforts to address the energy transition.

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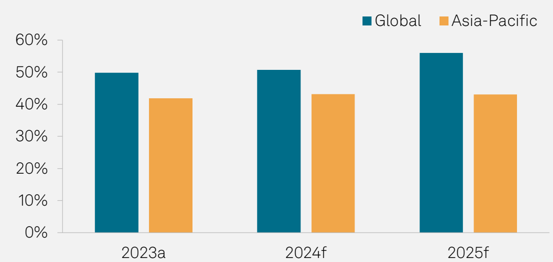
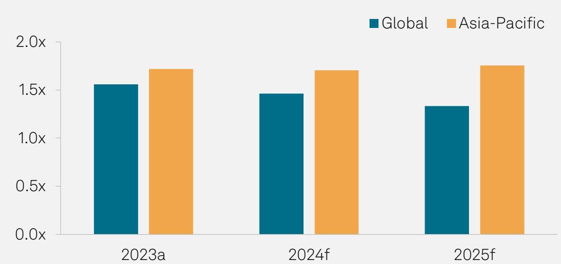
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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. e--Estimated. f--Forecast.
Source: S&P Global Ratings.

What are the key risks around the baseline?

Global, and particularly Chinese, demand growth is losing steam. Despite the Fed's rate cuts, global economies still may encounter a sharper-than-anticipated slowdown. China's rising economic risk has added to the country's already subdued demand growth, which has not been very responsive to stimulus measures. Delayed starts of petrochemical projects in China also tamped down demand for crude feedstock. China's oil demand will likely be at 380,000 barrels per day in 2024 and 2025, compared with 700,000 barrels per day per annum from 2010-2019.

Still, China, India, and Brazil remain the key drivers of oil demand, compared with major Western economies. By our estimates, global demand growth for the remainder of 2024 will be 1.7 million barrels per day, lower than 2.1 million barrels per day in 2023.

Extended production cuts by OPEC+ support prices. OPEC's decision to delay production hikes for two months until the end of November has supported oil prices. The group's capacity management will continue to be a crucial determinant of crude oil prices amid geopolitical and macroeconomic conditions.

Volatility is coming from supply-demand dynamics more so than from geopolitical tensions. Ongoing geopolitical tensions will continue to fuel unease about oil supply and energy security. However, uncertainty on policy interest rates and economic outlooks will likely be the front-of-mind over the next 12 months.

What do they mean for the sector?

Persistent volatility and earnings headwinds. High volatility will pose downside risks to earnings, in turn feeding through to decisions on capex for rated companies. Risk aversion will, however, not materially affect most rated Asia-Pacific producers' access to capital or refinancing given that most rated producers are investment-grade national oil companies.

Public Finance

Debt increase outpaces rate cuts

What do we expect over the next 12 months?

- Interest rate declines will remain slow in most Asia-Pacific jurisdictions. Already-high interest payments will continue to weigh on local and regional governments (LRGs) and associated enterprises that maintain elevated funding plans.
- Local governments in China, Australia and New Zealand will continue to spend on large infrastructure pipelines resulting in growing debt levels and higher interest burdens. We have a negative net outlook bias on New Zealand LRGs.
- Tail risks include indebted borrowers failing to contain debt and liquidity risks, leading to systemic financing problems and loss of market confidence spilling over.

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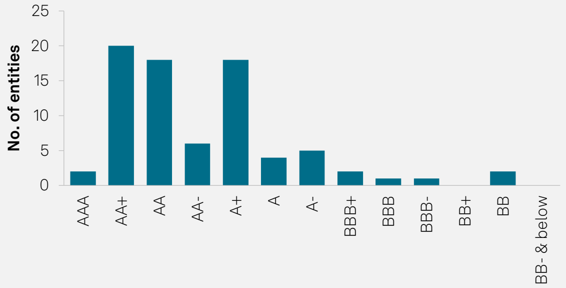
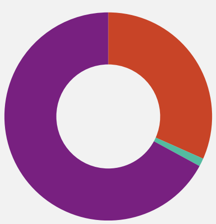
Rating distribution



Outlook distribution



As of August 31, 2024. Source: S&P Global Ratings.

What are the key risks around the baseline?

Increase in debt outpacing rate cuts. We don't expect Asia (ex-Japan)'s rate cuts to be rapid, even as the Fed progresses with theirs. Borrowers will continue facing heightened debt service.

Property market correction. Most LRGs in the region are fiscally dependent on revenues tied to domestic property sales and prices. Prolonged revenue drags in China without new growth sources could prompt further delays in fiscal consolidation despite expenditure cuts.

Policy shifts. To restore economic growth momentum and market confidence, select LRGs could roll out further fiscal stimulus, including tax cuts and spending. Enhanced efforts or execution failures to contain local SOE debt risks in certain weak regions in China could have a negative regional credit impact. New water reform plans in New Zealand are still being structured, and the potential impact on local government finances is driving the large negative outlook bias for the region.

What do they mean for the sector?

Divergence becomes the normality. Some LRGs with aggressive fiscal stimulus, including tax cuts or more spending, are seeing fiscal deficits and debt reaching levels that are difficult to restore to prior levels.

Diminishing room for policy adjustments or execution errors. Balancing growth objectives and debt resolution becomes increasingly delicate for Chinese LRGs.

Real Estate Development

Weak homebuyer confidence in China dampens primary property sales

What do we expect over the next 12 months?

- China's primary property sales is still searching for a bottom due to weak homebuyer confidence.
- Weakness in Hong Kong's residential market will persist as inventory and supply remain high.
- Indonesia developers' refinancing risks will ease. Some 60% of their offshore notes maturing in 2025 has been repaid or tendered.

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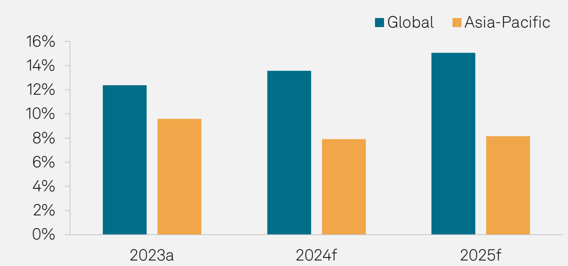
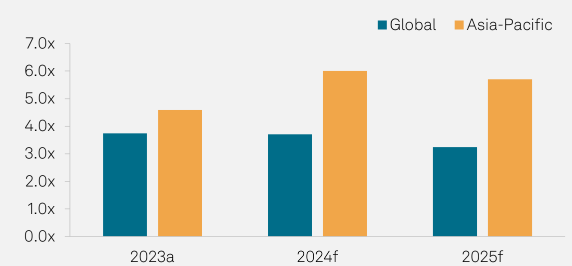
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

China's primary property sales deteriorates further. Residential property sales dropped by about a quarter year on year to Chinese renminbi (RMB) 5.3 trillion in the year to July 31, 2024. The effectiveness of the government's recent policy loosening is below market expectations. Given weak homebuyer confidence, there could be downside risk to our national sales forecast of RMB 10 trillion-RMB 10.3 trillion in 2024.

Hong Kong's home prices could stay soft due to high inventory and supply. Unsold homes recently stood at 21,676 units, and over the next two to three years, annual primary residential supply could exceed 20,000 units. We project primary residential transaction volume will be just 15,000-17,000 units in 2024.

Indonesian developers' residential property sales could drop by about 5% over the next 12 months. The expiration of value-added tax reduction by the end of 2024, coupled with an expected increase in the VAT to 12% from 11% in 2025, will weaken housing demand.

What do they mean for the sector?

Surviving Chinese developers will have to manage cash flow safety while competing on product differentiation in a smaller market. Rated developers operating in higher-tier cities, with strong brand recognition, and offer higher quality products will fare better. Those who focus on entry-level products and operate in lower-tier cities will face a tougher operating environment.

Hong Kong developers will make a trade-off on margins for volume. To clear inventory, we believe Hong Kong developers will sacrifice pricing for their mass-market products. This will weigh on their EBITDA. To contain their leverage, Hong Kong developers will continue to be prudent in investments.

Indonesian developers' surplus cash will be reduced. This is due to thin operating free cash flow on the back of slowing sales coupled with annual amortization of their loans with domestic banks.

Real Estate Investment Trusts

Timely execution on capital management levers could shore up landlords' credit quality

What we expect over the next 12 months

- Asia-Pacific office landlords are facing structural and cyclical pain. Valuation pressures remain for major Australian cities and Hong Kong due to supply challenges.
- Credit metrics and covenant headroom will need more time to improve meaningfully.
- Logistics, hospitality, and retail (nondiscretionary) assets remain well supported.

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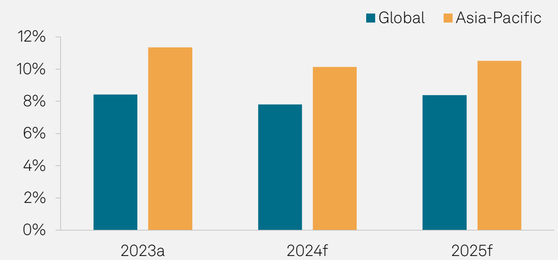
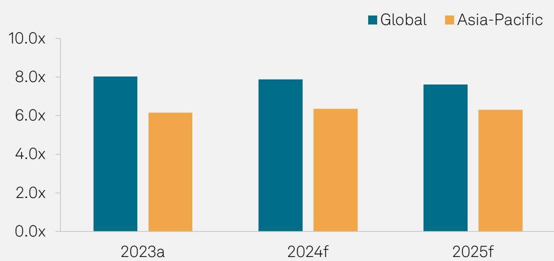
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

Landlords could not monetize assets to deleverage on a timely basis. High-for-longer interest rates in Australia have kept purchasers on the sidelines, stymying landlords' efforts to deleverage. Sales of office assets at depressed prices will exert further downward pressure on office valuations. This could further erode gearing covenant headroom and funding avenues for our rated landlords.

Average funding costs stays high, crimping credit metric headroom. Landlords could face higher funding costs at the next fixed-rate debt reset. Landlords, outside of Hong Kong, are unlikely to benefit meaningfully from Fed rate cuts. Faster than expected interest rate hikes in Japan and sluggish revenue increase could dent Japanese landlords' credit metrics. Recovery in interest coverage ratio could take longer.

What do they mean for the sector?

Landlords to consider all available capital-management levers to improve thinned credit metrics. Asset divestments, distribution payout reduction, deferral of non-essential capital expenditure, and equity fundraisings are some capital initiatives deployed by Asia-Pacific REITs under rating pressure. Stabilizing capitalization rates should encourage capital inflows to the sector.

Refinancing risk remains manageable for landlords with covenant headroom. Banks remain supportive of prime commercial assets in key Asia-Pacific gateway cities. Debt maturity profiles are shortening as landlords opt for bank loans over bonds.

Financial buffers remain thin. Further deterioration in valuations will increase gearing and reduce covenant buffer. However, we expect most rated Asia-Pacific REITs can still withstand the challenging operating and financial conditions.

Retail

Revenue growth to slow amid weak spending

What do we expect over the next 12 months?

- The topline will stay weak with low consumer confidence. China retail is seeing a minimal boost from policy support, while Australian grocers await regulatory review over grocery pricing.
- EBITDA margins will broadly weaken across our coverage area. Companies generally need to spend more on promotions to stimulate demand. Cost pressures are elevated in the Pacific region.
- Credit ratios for China and Japan should improve, but Pacific companies will see relatively weaker metrics.

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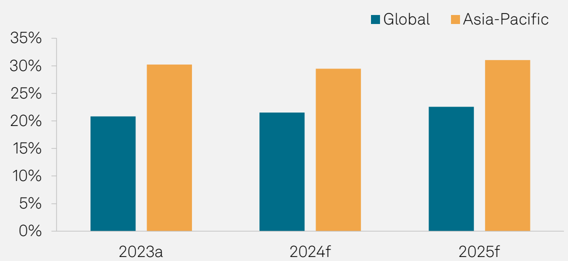
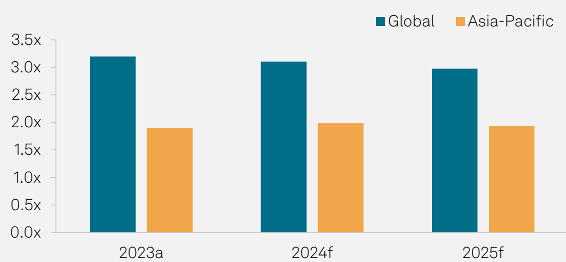
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

Cautious spending. Consumers are cautious with shrinking real disposal income (in Japan and Pacific) or low confidence (in China). Spending is disciplined and biased toward downtrading and necessities.

Regional drivers diverge. In Australia, outcomes on price-gouging allegations could potentially shift market share or operating cost structures for supermarket operators. In China, consumers are trading down (i.e., bargain-hunting) across multiple categories. In Japan, a weaker yen lifts tourists' inflows but weak domestic consumption weighs on the sector.

Diminishing returns. Cost inflation in Pacific is hurting margins. Japan issuers are relatively shielded from slow domestic consumption given most of their earnings comes from overseas, and this level is growing.

What do they mean for the sector?

Low confidence. It will take time to rebuild consumer confidence. COVID savings have largely been used up in Japan and the Pacific, while recent wage hikes could slow the pace of real wage declines.

Tighter corporate spending. Corporations are taking a cautious stance on capital spending, focusing more on maintenance than expansion. Reorganization of companies in Japan's retail market is accelerating as the population shrinks, which will likely prompt further consolidation locally and abroad.

Credit metrics to diverge. A growing EBITDA base in China and Japan along with measured spendings should support cash flows and low leverage ratio trends. Weaker EBITDA generation in the Pacific would hurt credit metrics such as leverage and discounted cash flows.

Sovereign

Geopolitical risks back to the forefront

What do we expect over the next 12 months?

- Global economic activity and financing conditions remain stable, as interest rates start to come down even as inflation persists in most major economies.
- Current account balances and inflation in many economies should improve, especially if energy and other commodity prices remain broadly stable.
- We still anticipate some governments will meaningfully lower fiscal deficits, although a return to pre-COVID fiscal performances will take longer in many cases.

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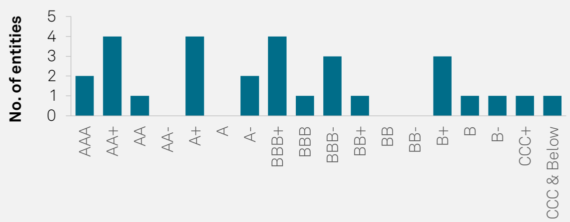
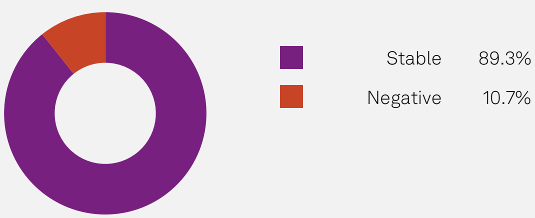
Rating distribution



Outlook distribution



As of August 31, 2024. Includes public ratings only, and ratings on policy-related financial institutions and corporates.
Source: S&P Global Ratings.

What are the key risks around the baseline?

A potential rebound in energy prices would seriously undermine external and fiscal metrics. This could result if risks related to the Israel-Hamas conflict intensify.

Sudden capital swings. Further escalations in the war in Ukraine and/or the Middle East could bring about a more negative outlook for the global economy and exacerbate investor risk aversion. Should sentiment toward Asian emerging markets deteriorate sharply, capital outflows could intensify.

What do they mean for the sector?

A rebound 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, this could exacerbate the hit to fiscal performance.

Resurging costs of energy imports could 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, such a deterioration could worsen investor confidence and further raise financing costs. These deteriorations could damage the credit support of some sovereigns.

Structured Finance

Consumer confidence remains fragile

What do we expect over the next 12 months?

- Consumer confidence remains soft across several markets, discouraging purchases and dampening the outlook for households; this will be reflected in lower loan volumes.
- Cost-of-living pressures and higher interest rates in Australia and New Zealand are stretching some households, raising delinquency levels and adding to subdued consumer outlooks.
- Some weakening in asset performance is likely over the remainder of 2024, as unemployment increases moderately in some markets.

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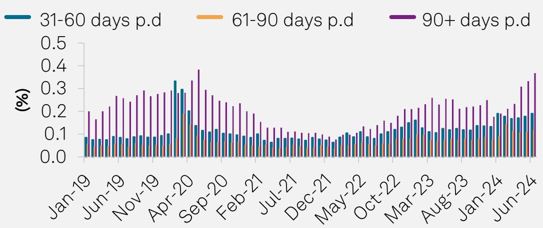
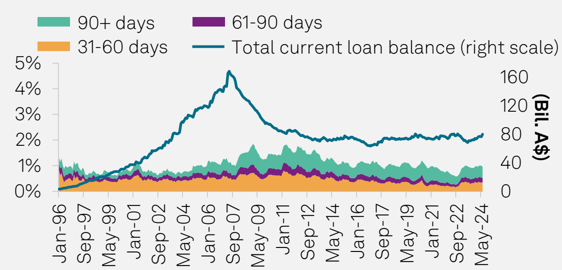
China auto loan ABS w.a. asset delinquency rates



Data as of Jun. 30, 2024. The delinquency rates of the first three months after transaction close are excluded. ABS--Asset-backed securities. w.a.--Weighted average. p.d.--Past due.
Sources: Trustee reports published on Chinabond's website; compiled by S&P Global Ratings.

Australian RMBS prime SPIN data



Data as of Jun. 30, 2024. Source: S&P Global Ratings.

What are the key risks around the baseline?

China's housing sector risk. This sector remains sluggish. Weak homebuyer confidence is weighing on mortgage loan volumes.

Unemployment. We are seeing unemployment rise from post-pandemic lows for Australia and New Zealand.

Rates and inflation. For Japan, modest increases in interest rates could 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. Australia and New Zealand continue to digest the impact of higher interest rates to tackle inflation, adding strain to some borrower cohorts. New Zealand's recent rate cut will bring some relief to households, but this will be offset by rising unemployment.

What do they mean for the sector?

Delinquencies to rise. We expect delinquencies to increase across most markets and asset types, particularly those exposed to rising unemployment and elevated interest rates. However, this is off historically low levels and is generally supported by broadly low levels of unemployment trends and expected to be modest.

Issuance is likely to diverge. Lower consumer lending and macroeconomic weakness could reduce issuance of structured-finance assets. We expect consumer ABS issuance to remain active across the region. The outlook for residential MBS issuance is mixed with China and Japan seeing lower issuance volumes. Issuance from Australia has been strong year to date.

Structural supports are in place. Most transactions have or can build support to mitigate downside risks.

Technology

Weaker demand and geopolitical risk weigh on recovery

What do we expect over the next 12 months?

- Diverging trends across sub-sectors continue. An AI super cycle will continue, boosting sales of product categories such as high-bandwidth memory and AI servers. The recovery in consumer electronics is lukewarm. Demand from industrials and auto end markets will stay subdued.
- Geopolitical risks heighten as the U.S. presidential election approaches. The China tech sector as well as global tech trade will face more regulatory uncertainty. Mid and downstream hardware companies are setting up 'plan Bs' outside China.
- Most rated tech issuers have sufficient rating buffer, despite high capital expenditures. Refinancing remains a challenge for lower-rated issuers.

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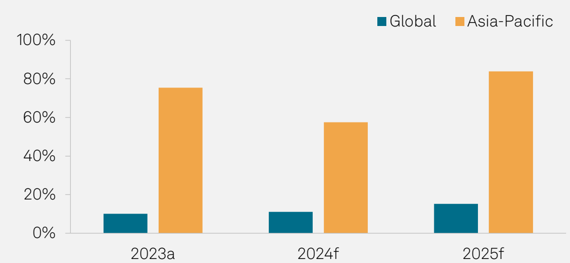
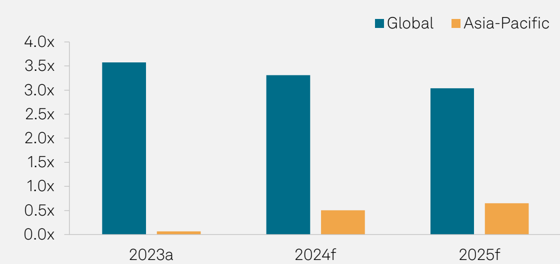
FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



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.

What are the key risks around the baseline?

Weakening consumer sentiment. Macro strains in China and the U.S. could derail a recovery of the export-oriented Asia-Pacific tech sector. New AI features will likely drive smartphone replacement this year. PC shipments will face a high base issue, with AI's benefit to PC mainly reflected toward the year end.

More geopolitical risks as the election approaches. U.S.-China trade tensions will persist irrespective of the election outcome. Further trade restrictions and supply chain diversification efforts will likely amplify inflationary pressures and investment inefficiencies for those most exposed to cross-border supply chains.

Overcapacity of mature semiconductors. Sizable new capacity using mature process nodes larger than 28 nanometers, mainly from China, will be added in 2024. Competition remains intense for Asia-Pacific foundries specializing in mature chips, amid a sluggish recovery in the auto and industrial sectors. Long term contract protections for some foundries and the trend of China diversification strategy will partially alleviate the risks.

What do they mean for the sector?

Margin trend diverges by sub-sectors. Good profitability could continue in memory producers supplying high-bandwidth memory for AI applications and firms debuting other AI-enabled new products. In contrast, margin pressure will be high for players dependent on other end markets such as autos and industries.

High cash flow volatility. This is due to a confluence of factors: working capital swings; investment in capacity; new technology and relocation of production facilities; and macro and geopolitical uncertainties.

Sufficient rating buffers for most Asia-Pacific tech issuers. This is despite working capital swings and active investments for growth. High funding costs and weak capital structures weigh on lower-rated issuers.

Telecommunications

Capital recycling steadies credit metrics

What do we expect over the next 12 months?

- Telecom operators' earnings will see modest growth. Cost-cutting, supported by AI adoption and simplified business structures, remains a common theme.
- Spending focus pivots to new growth engines. Easing network capex as well as divestments of non-core businesses and assets provide balance sheet capacity.
- Competition to moderate in some markets. Market consolidation and the need to recoup heavy network investments are push factors.

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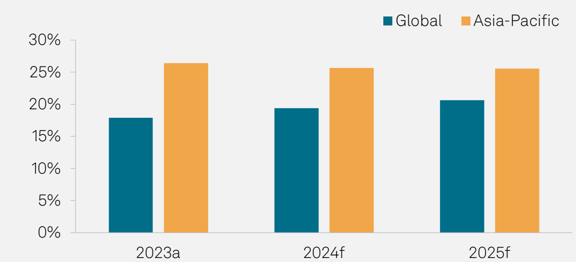
FFO to debt (median, adjusted)



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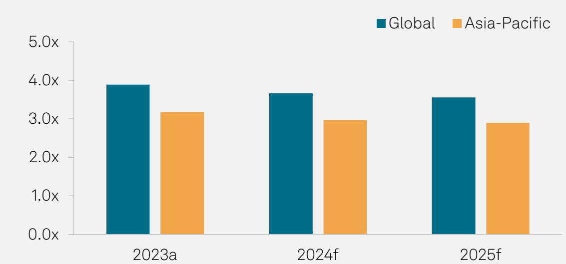

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Source: S&P Global Ratings.

What are the key risks around the baseline?

Macro risks. Input cost inflation could undermine telcos' cost-cutting efforts. Macroeconomic uncertainties and stickier inflation could slow upgrades by consumers to pricier plans and 5G-enabled handsets and weigh on telcos' ability to execute on price increases. These could also weaken demand from enterprise customers.

Rising investment in growth engines. Telcos have been investing in high-growth segments such as fiber, cloud, and data centers. Such investments, if debt-funded, can erode rating headroom, as new earnings streams take time to ramp up. Execution risks could also lead to higher-than-expected capital intensity.

A need for more 5G capex. Telcos with non-stand-alone 5G may need to fund another capex wave as they move toward standalone 5G. This risk is in the medium term as telcos are more cautious to invest more without significant monetizable use cases available. Sporadic spectrum buys could also exacerbate leverage.

What do they mean for the sector?

More infrastructure sharing, competition easing. Telcos will pursue more cost-cutting and topline-boosting measures. Players in markets such as Australia, Philippines and Malaysia have proposed or entered network sharing agreements. Tower sharing should also rise. Market consolidation (in Indonesia, Taiwan and Thailand) will ease competition and bring cost synergies, while price hikes in other markets (India and Australia) will boost telcos' topline.

Divesting non-core assets. With rated Asia-Pacific telcos mostly at investment grade, the focus is on financial policy. We believe telcos will consider selling non-core businesses and passive infrastructure assets to fund investments in new growth engines. Timely divestments will be the key leverage management tool. We see signs of this as some telcos restructure their businesses, which could facilitate subsequent divestments. There is also initial momentum in bringing in strategic partners for new growth engines such as data centers.

Transportation Cyclical

Focus on cost management amid easing air traffic demand and freight rates

What do we expect over the next 12 months?

- Asia-Pacific airlines will focus on cost management as air traffic growth decelerates, fuel costs remain elevated and competition heightened.
- A correction in freight rates continues, although moderated by the Red Sea disruptions.
- Decarbonization pushes will drive costs higher.

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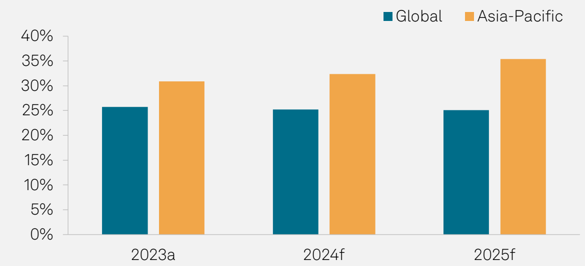

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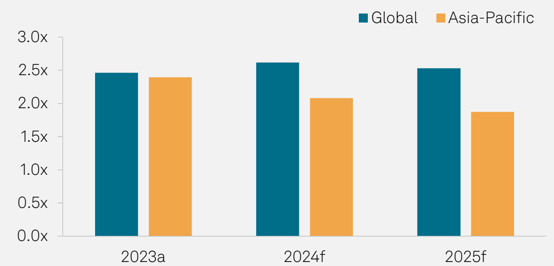

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What are the key risks around the baseline?

Slowing economy, geopolitical shocks. Slower growth and geopolitical tensions could derail the recovery in aviation and weigh on global trade. While prolonged Red Sea disruptions could ease shipping supply-demand imbalances, it may increase demand for air freight, and stoke inflation.

Interest rates, while easing, remain high. High rates and volatile oil prices could gradually moderate the improvement in airlines' credit metrics, and reduce cash buffers for container liners. This is since many entities in the region still rely largely on domestic funding where central banks could be more cautious on rate cuts. Lower-rated entities could face liquidity and refinancing risks.

Supply-side constraints linger for aviation, ease for freight. Delayed aircraft deliveries, maintenance backlogs, engine problems and staff shortages could impede airlines' path to full capacity, and aircraft lessors' growth prospects. But a surge in new-build ship deliveries will lead to further freight correction.

What do they mean for the sector?

Airlines to stay focused on managing costs. Passenger traffic growth, load factors and yields will moderate as the post-pandemic recovery plateaus, amid intensifying competition. Airlines' ability to maintain their competitive advantage and implement cost savings will be crucial to preserving profit margins.

Capacity management and cash buffers are key for freight operators. Container liners will likely keep offloading tonnage and carrying out blank/slower sailings to reduce capacity. Freight operators are relying on the strong cash flows built up in 2021/2022 to weather weaker margins. They will also remain nimble in their supply-chain logistics strategies.

Renewed focus on growth and green initiatives may mean higher capital expenditure. Entities could invest in more fuel-efficient fleets after spending reductions during the pandemic, and to meet growth aspirations. This could limit deleveraging. But supply-chain constraints in aviation could slow fleet renewal.

Transportation Infrastructure

Geopolitical uncertainties will test the region's transport demand

What do we expect over the next 12 months?

- Overall passenger traffic will fully regain lost ground caused by COVID lockdowns, after a few years' recovery. Freight volume growth will be resilient, with some constraint risk from escalating trade tensions.
- Volume growth and tariff/fare increases (in some markets) will bolster profitability. Capital expenditure is increasingly demand-oriented and the impact varies depending on capacity expansion schedules. Tapering spending could improve key metrics for some issuers.
- Our overall rating bias is slightly positive. Cases of negative outlook are due to weakening external support, while positive ones mostly reflect expected cash flow improvement from higher tariffs.

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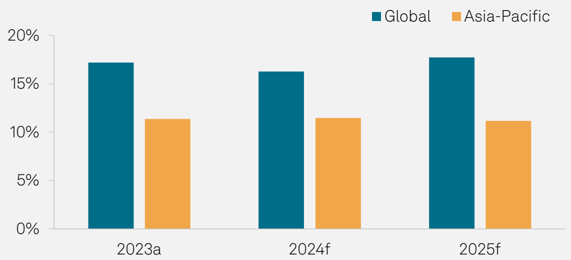
FFO to debt (median, adjusted)



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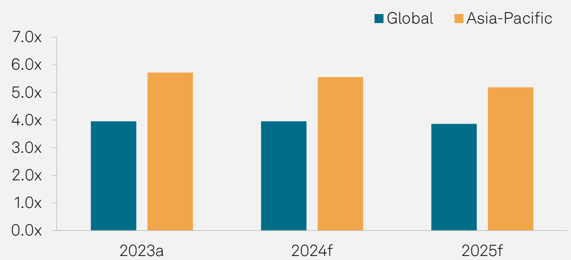

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Source: S&P Global Ratings.

What are the key risks around the baseline?

Trade tension and demand risks. The region's export performance might not sustain at recent robust levels because it was partly driven by preplaced orders amid Red Sea-related supply chain disruptions. Freight volume growth is at risk of softening demand from major developed markets.

Inflation continues to affect some markets. Inflation is still lingering in some markets (e.g. Australia), which could constrain trade demand and travel needs. Inflation is easing in other places; its impact will continue to be uneven across the region.

Still high interest rates in some markets may pressure borrowers. 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?

Demand growth could be lower than expected. Potential softening imports from the U.S. and Europe, and a slowdown of China's economy, could drag on transport demand for the region's exports.

Still, domestic funding costs support financing in many regions. Access stays strong to cheaper funding from domestic banks and the onshore bond markets in places such as China and India. This helps support financing for capex. Some countries' issuers are also benefiting from inflation-linked tariff/fare increases.

Leverage will stay elevated, at above the global level. This is mainly due to continued large capex to improve efficiency or to meet demand growth.

Utilities

Expected rate cuts may support refinancing and earnings improvement in some markets

What do we expect over the next 12 months?

- Demand will grow at mid-single-digit in line with economic growth; expected rate cuts may support earnings and margins.
- Large spending on renewables (including grid and storage) and coal-fired capacity (for energy security) will keep leverage high.
- The rating bias remains positive reflecting a recovery in volumes, accelerated capacity expansion, and declining fuel cost pressures.

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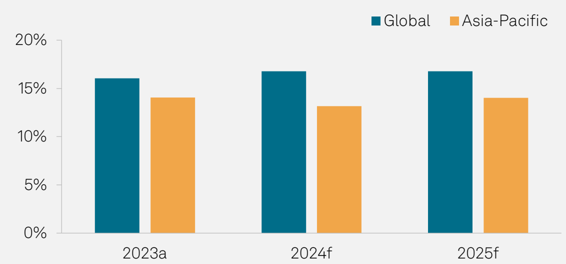
FFO to debt (median, adjusted)



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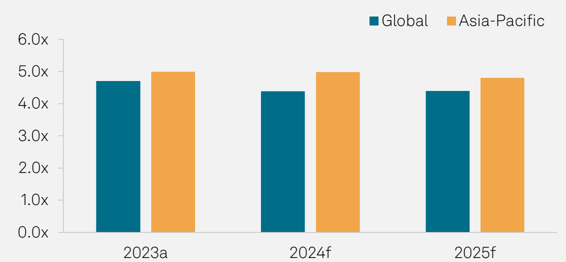

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What are the key risks around the baseline?

Geopolitical conflicts weigh. This may lead to spikes in fuel costs, reversing the margin recovery trend. Effective cost passthroughs will be key to support cash flows. While we observe some fuel cost passthrough in some markets, it is uneven across all entities. Companies are exposed to supply-chain risks in budgeting and capex delivery processes.

Further interest rate cuts to support refinancing for expansion. Expected interest rates cut over the next 12 months may reopen funding options and lower costs for most countries that face pressure on this front.

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, and the acquisition of renewables.

What do they mean for the sector?

Capacity increment could weigh on utilization. Accelerated expansion of renewables without sufficient grid or storage facilities could heighten the risk of curtailment and increase volatility of contract pricing and volume. This risk is rising in China, and is apparent in Australia, due to a lack of contractual protection.

High working capital needs due to electricity-price volatility in some markets. In China, power tariffs will moderate as market-based pricing reform deepens. Any fuel cost spike due to the disruption of energy supply could hurt profitability in some markets.

Carbon credits may rise as an additional income source on energy transitions. Income from green certificates and carbon credits may contribute more to operations as governments expand energy transition to more sectors in some markets.

Related Research

- Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates, Sept. 25, 2024
- Your Three Minutes In China Banks: Stimulus To Squeeze Interest Margins, Sept. 25, 2024
- Economic Outlook Asia-Pacific Q4 2024: Central Banks To Remain Cautious Despite U.S. Rate Relief, Sept. 24, 2024
- China Insurance: Time For Tough Medicine, Sept. 24, 2024
- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific Spending Appetite Erodes Creditworthiness, Sept. 19, 2024
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- Asia-Pacific Sovereign Rating Trends Midyear 2024: Fiscal Strains Rise, July 25, 2024
- Economic Research: Paving The Way: Efficient Infrastructure Key To Emerging Asia's Growth, July 24, 2024

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