S&P Global Ratings

Asia-Pacific Consumer Outlook 2025:

Some Pain, Some Gain

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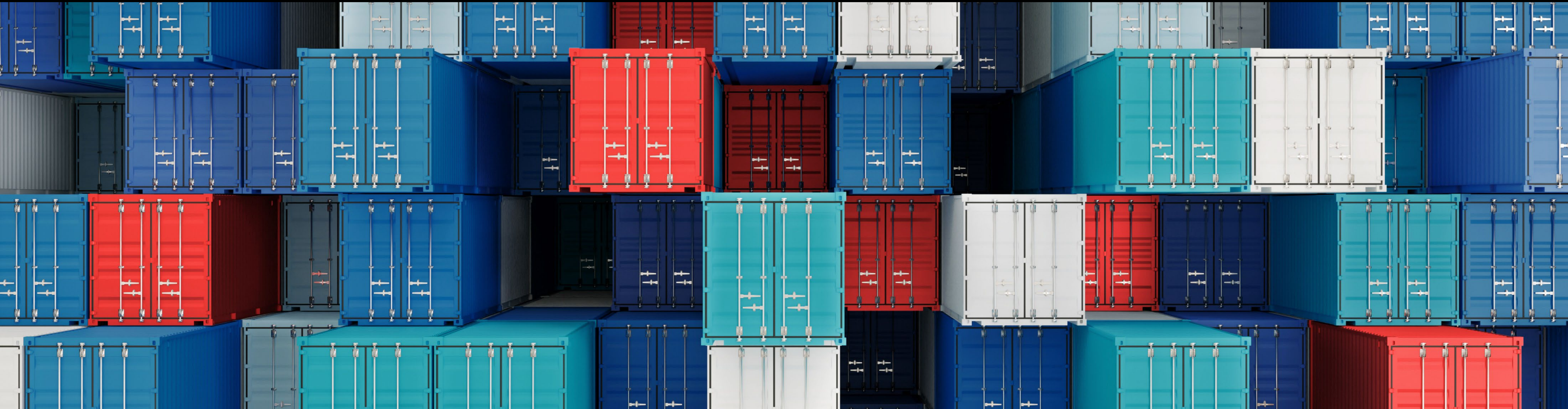
Jan. 21, 2025

This report does not constitute a rating action



Agenda

S&P Global
Ratings

1. Interregional Trends

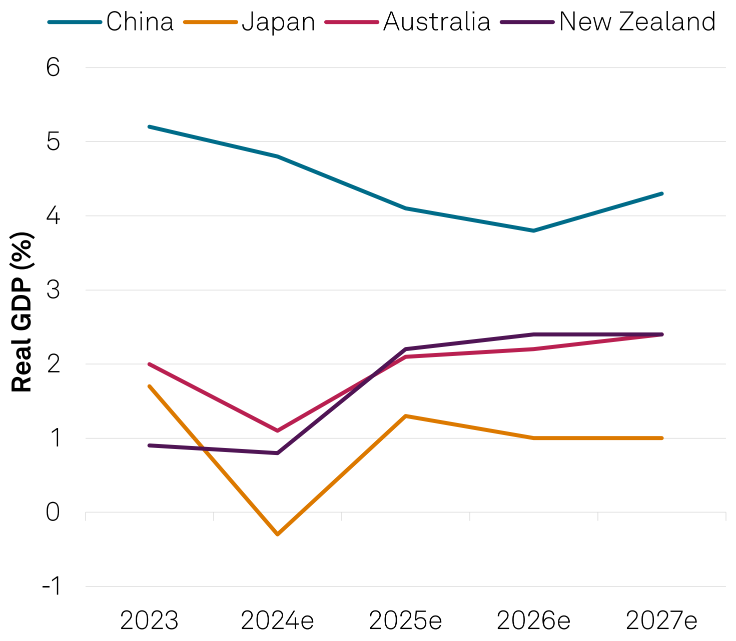
Key Takeaways

- We expect the consumer sentiment trends that played out across Asia-Pacific in 2024 will continue in 2025, with steady retail growth across major countries of coverage.
- Regional rating outlooks are diverging.
  - **China:** A net negative trend is worsening among entities within our coverage, driven by demographics (such as the declining birth rate) and consumer trading-down patterns, which are hitting luxury, travel-specific retail, and volume sales of premium products.
  - **Japan:** Rating trends should remain stable in 2025 supported by solid cash flows among entities. This is despite a slowdown in domestic revenue growth as consumers learn to cope with 40-year high inflation. Higher labor and logistic costs could hinder improvement in profitability in 2025.
  - **Pacific:** On a brighter note, the Pacific region should see higher household purchasing power flowing from falling interest rates. This is more so for Australian consumers, which will benefit from a resilient labor market, recent tax cuts, and government stimulus to alleviate inflationary pressure.
- Margins are flattish for larger players. Corporates are focusing on cost efficiency to counter raising wages (in Japan and Australia), and/or downtrading. Larger corporates tend to have the resources to invest and subsequently roll out new products to maintain or grow their market share. In general, smaller players in the local markets are losing share; many are exiting markets entirely as unfavorable cost structures makes operations unsustainable.
- Key watch points:
  - **China:** Low utilization of government stimulus due to soft consumer demand and unhealthy price competition.
  - **Japan:** Pressure from activist shareholders that may prompt corporate realignments such as mergers, acquisitions, or alliances.
  - **Pacific:** The outcome of regulatory scrutiny of supermarket operators, with a focus on pricing and marketing practices.

While Retail Conditions Will Improve In 2025, Strains Remain

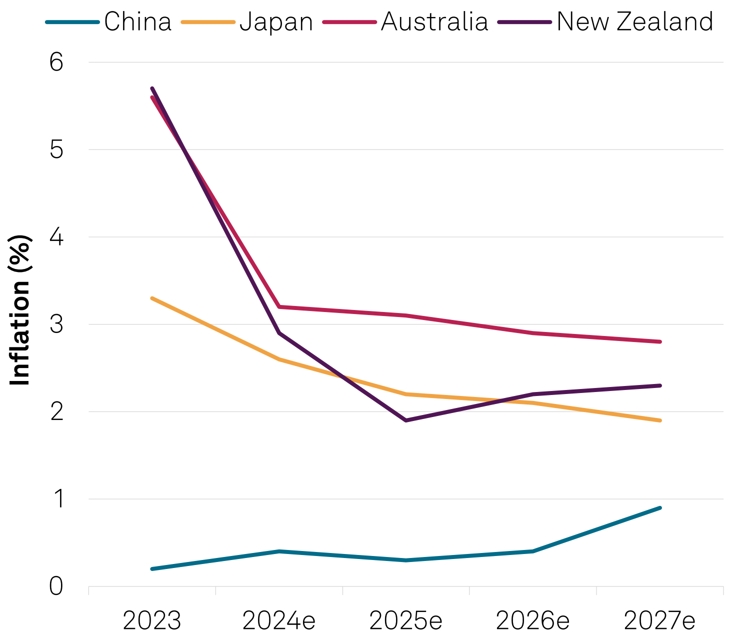
- For China, we expect 2025 retail sales growth to outperform GDP expansion, a reversal from 2024. The government's targeted trade-in program boosted retail sales in 2024. Beijing will likely roll out similar stimulus of equivalent size in 2025.
- For Japan and Australia, improving GDP in 2025 should support steady gains in retail sales. Japan's somewhat high inflation will squeeze consumer spending appetite, while decreasing interest rates in Pacific will translate into gradual growth in discretionary income.

Real GDP growth



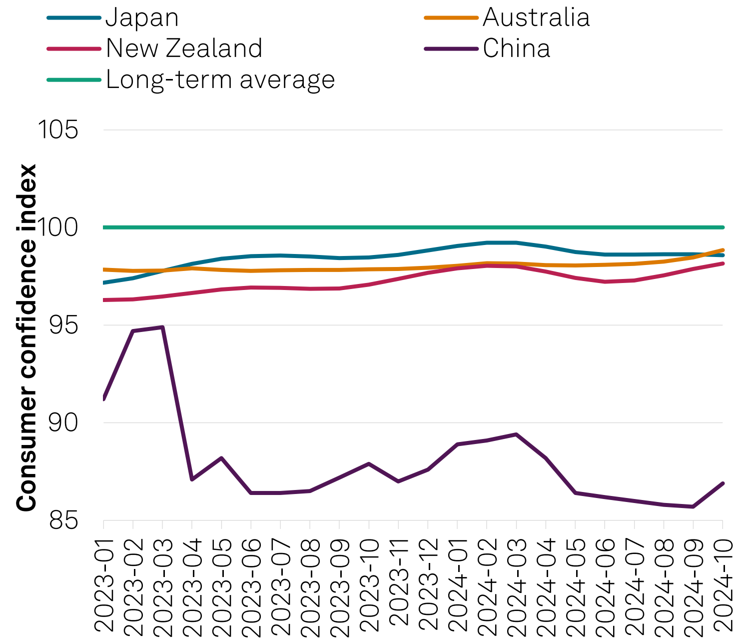
Source: S&P Global Ratings.

Inflation



Source: S&P Global Ratings.

Consumer confidence

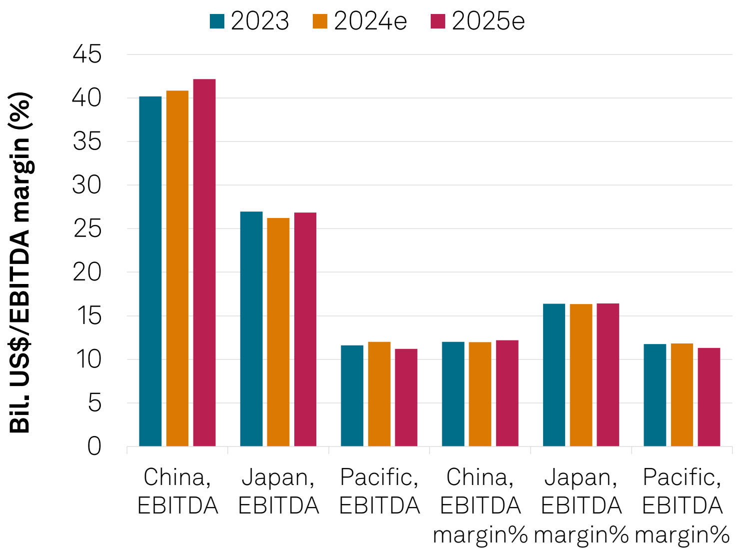


Data as of Dec.31, 2024. Sources: Japan, Australia and New Zealand from OECD, China from NBS.

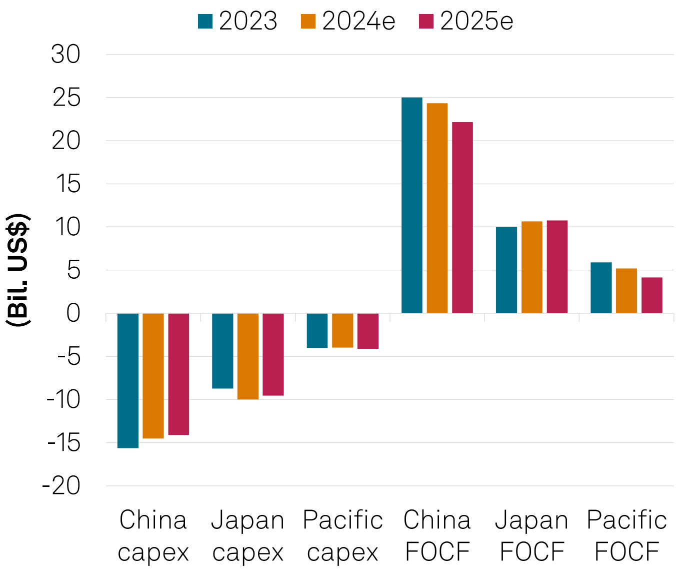
EBITDA And Cash Flows On Diverging Paths

- EBITDA is rising among rated China corporates while free operating cash flow (FOCF) is falling. This is despite decreasing capital expenditure (capex) as corporates pull back on expansion. We attribute this to working capital changes, from a large inflow in 2023 to outflows in 2024 and 2025. Shareholder returns surged in 2024 driven by record share repurchases, which should pull back in 2025.
- Rated Pacific corporates could see a decline in profitability while capex increases. Regulators are putting more scrutiny on the operating practices of Pacific retailers. Retailers will spend more on store refurbishments, we assume.

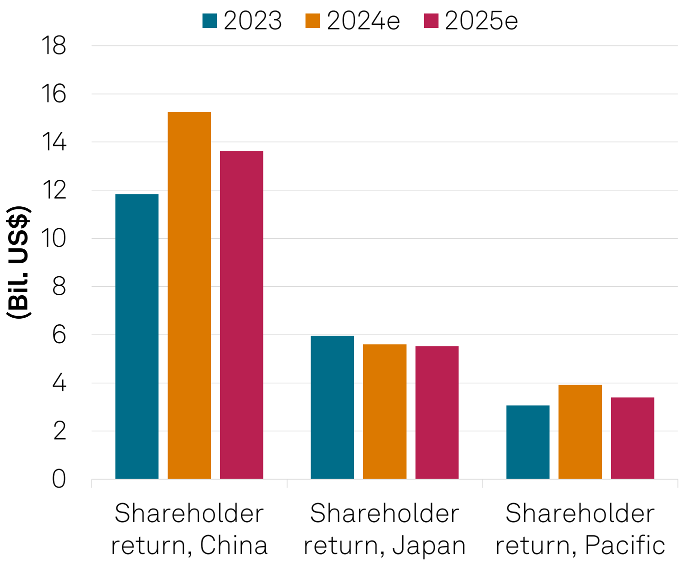
EBITDA



FOCF and capex



Shareholder returns



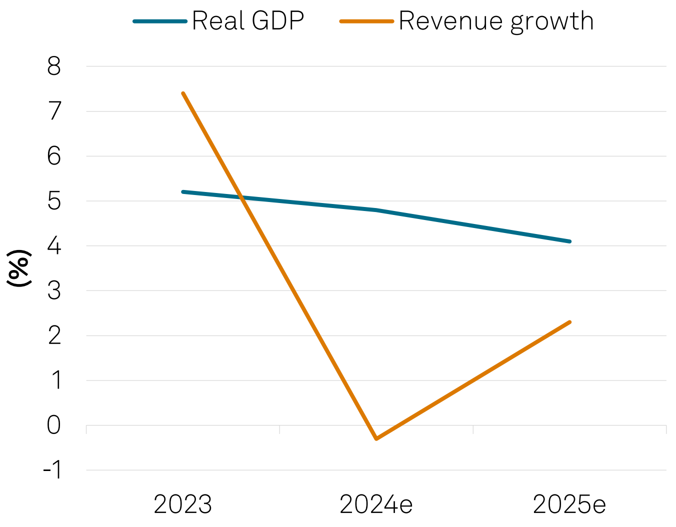
Financials are converted from reported currency to U.S. dollars. FOCF--Free operating cash flow. capex--Capital expenditure. Sources: S&P Global Ratings, corporates disclosures.

2. Regional Trends For Rated Issuers

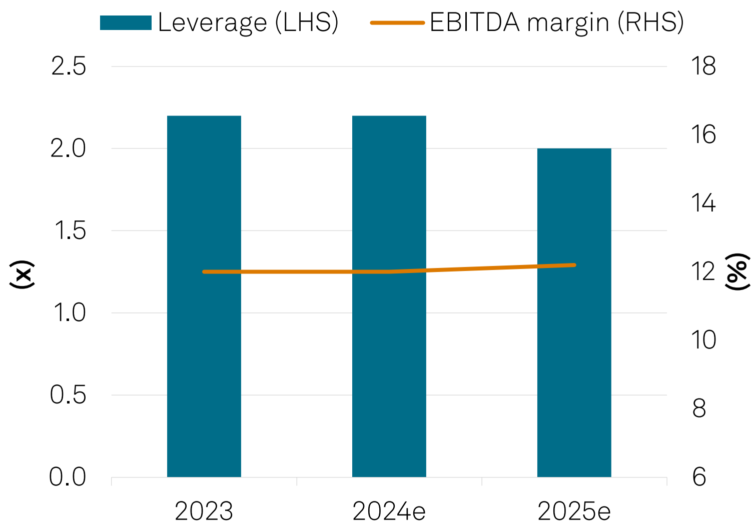
Greater China: Revenue To Expand In 2025

- Within our retail and consumer product coverage, more than two-thirds of companies posted a decline in revenue in 2024. The top three categories for such declines were dairy products, travel retail, and apparel retail. We believe consumers will stay cautious in 2025 but that meaningful government stimulus will stabilize spending levels.
- Credit profiles have held up as corporate EBITDA steadies. This is supported by companies focusing on more cost control, particularly on marketing and promotional expenses. A cautious stance among corporates is translating into reduced M&A spending. We do not expect M&A to pick up in 2025.

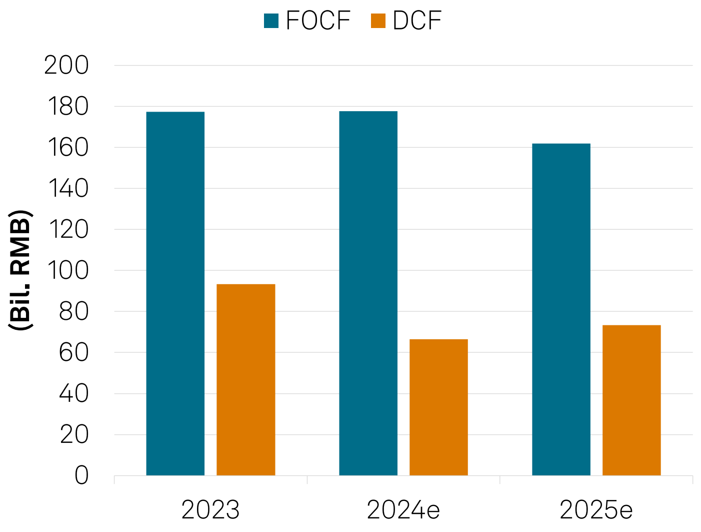
GDP vs revenue growth*



EBITDA margin and leverage



FOCF and DCF

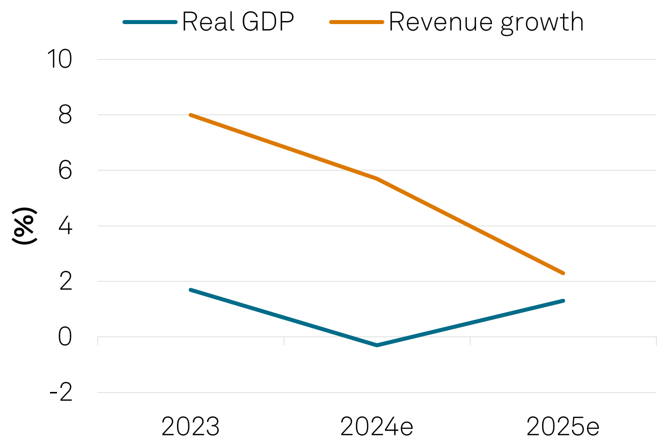


*Revenue growth is calculated based on reported currency. RHS--Right-hand scale. LHS--Left-hand scale. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Sources: S&P Global Ratings, corporates disclosures.

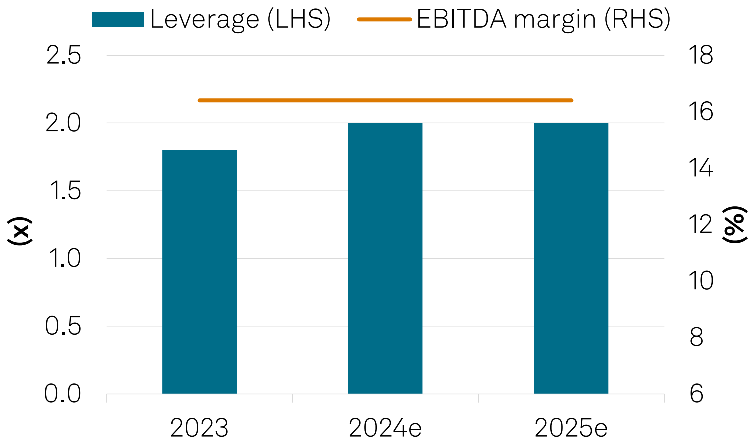
Japan: Weak Consumption Sentiment Will Pressure Earnings

- Revenue growth will fall in line with slowing domestic consumption growth. This contrasts with the recovery in exports that will likely drive GDP gains in 2025. An increase in labor and logistic costs will strain profits in this sector. A high reliance on private-label products will benefit retailers' margin profiles while weakening the margins of consumer-product makers.
- Higher consumption overseas should bolster the operational performance of rated issuers, but yen appreciation will dampen that rate of growth when results are reported in the local currency. Entities' revenue diversification--by region, store format, and products--will support earnings.
- Cash flow leverage metrics will remain flat due to aggressive capex and acquisition activity. Stable cash-flow generation and financial discipline will underpin positive FOCF, keeping credit metrics at sound levels.

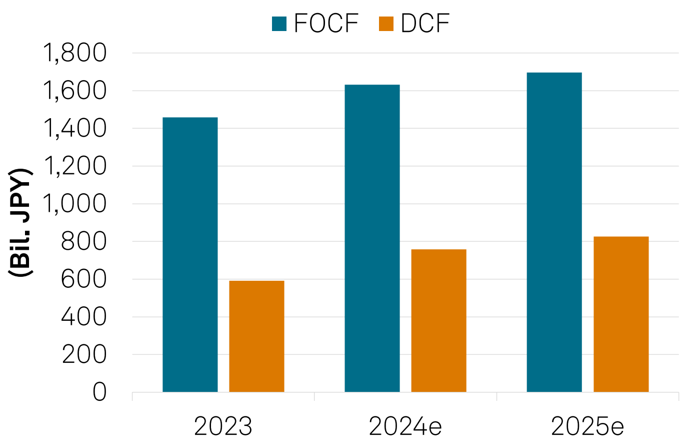
GDP vs revenue growth*



EBITDA margin and leverage



FOCF and DCF

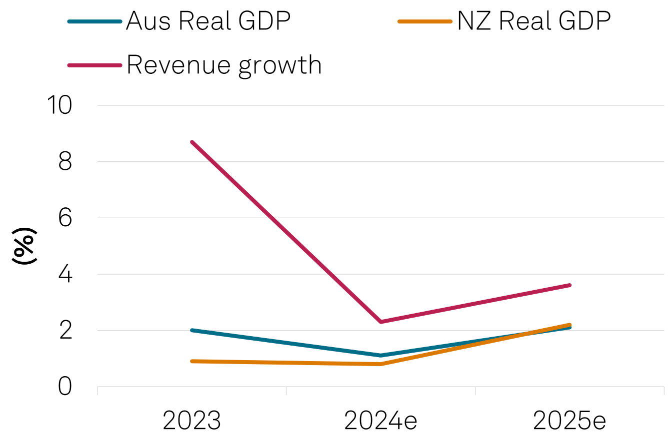


*Revenue growth is calculated based on reported currency. RHS--Right-hand scale. LHS--Left-hand scale. FOCF--Free operating cash flow. DCF--Discretionary cash flow. JPY--Japanese yen. Sources: S&P Global Ratings, corporates disclosures.

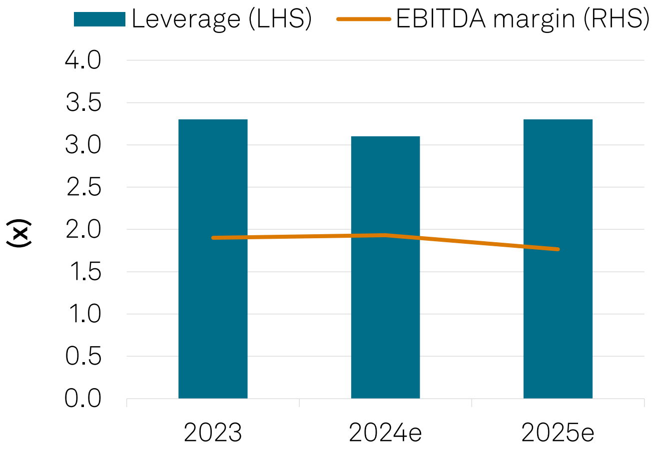
Pacific: Consumer Confidence To Improve

- Revenue growth in 2024 slowed for most companies in our coverage, after a robust performance in 2023. Consumer confidence will slightly improve in 2025 due to resilient labor markets, recent tax cuts, government stimulus, and likely interest rate cuts in Australia and New Zealand.
- Promotional efforts will likely stay strong as retailers strive to attract cost-conscious customers and increase or protect market share.
- We also anticipate wage costs to remain elevated, squeezing earnings margins. We expect that union actions in Australia during late 2024 will not deter retailers from implementing cost-efficiency programs and invest in productivity enhancements to mitigate competitive pricing pressures and rising costs.

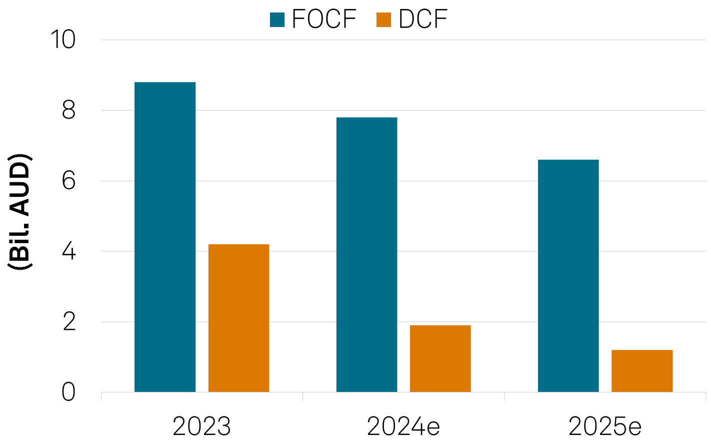
GDP vs revenue growth*



EBITDA margin and leverage



FOCF and DCF



*Revenue growth is calculated based on reported currency. RHS--Right-hand scale. LHS--Left-hand scale. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Sources: S&P Global Ratings, corporates disclosures.

3. Case Studies

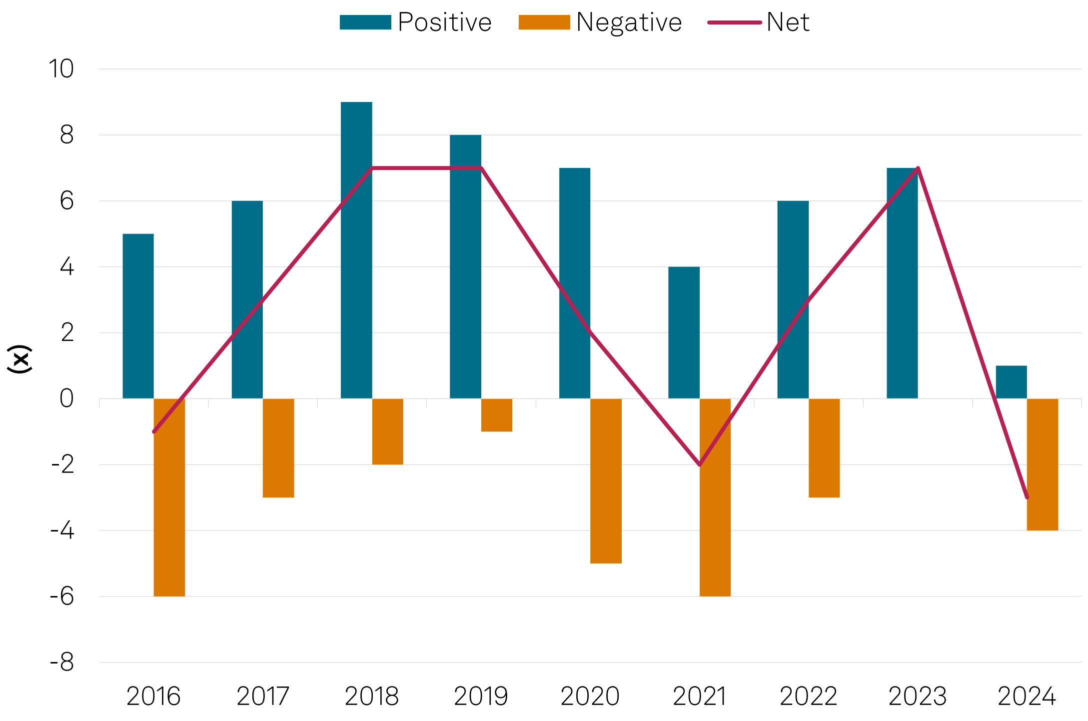
China Drove Negative Rating Actions In 2024

Weak discretionary spending was the main factor driving actions

Issuer Name	From	To	Date
Negative			
Health and Happiness (H&H) International Holdings Ltd.	BB/Stable/--	BB/Negative/--	Nov. 25, 2024
Japan Tobacco Inc.	A+/Stable/A-1	A+/Negative/A-1	Nov. 15, 2024
China Tourism Group Corp. Ltd.	A-/Stable/--	A-/Negative/--	Sept. 16, 2024
Health and Happiness (H&H) International Holdings Ltd.	BB+/Stable/--	BB/Stable/--	April 3, 2024
Positive			
Midea Group Co. Ltd.	A/Stable/--	A/Positive/--	Aug. 30, 2024

Source: S&P Global Ratings.

Rating actions trend

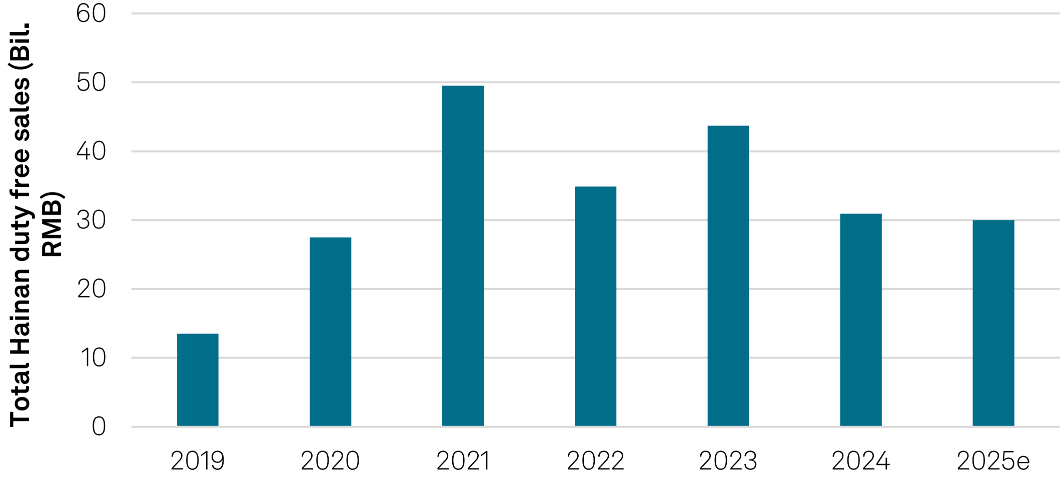


Source: S&P Global Ratings.

Case Study: China Tourism Group (A-/Negative/--)

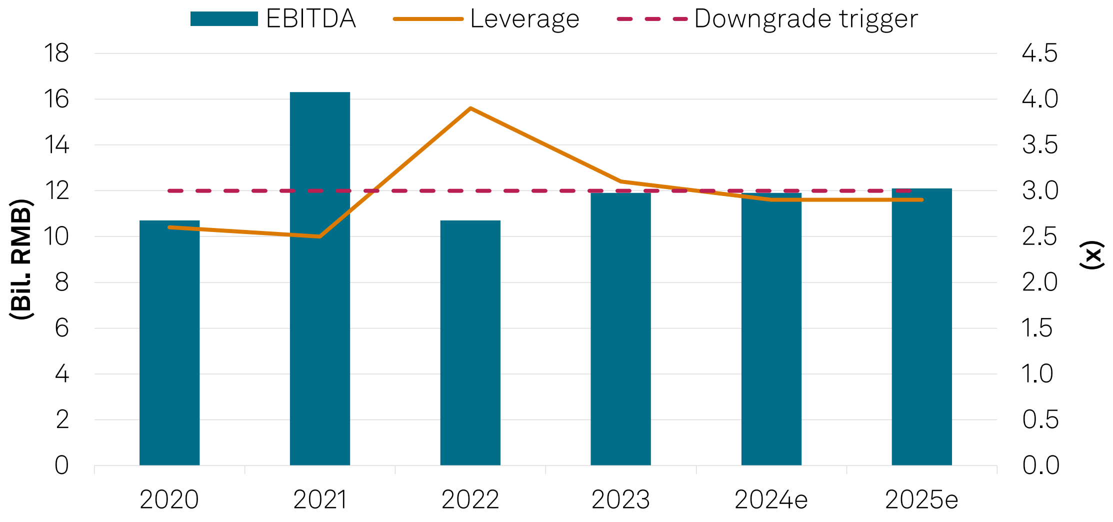
- Weak discretionary spending is casting a shadow on duty-free sales and certain luxury segment in China. We changed the ratings outlook on China Tourism Group to negative, reflecting the risk that the entity's duty-free retailing business in Hainan province could deteriorate further over next 12-18 months.
- Our base case assumes sales in Hainan will stabilize in 2025.
- High spending with limited earnings growth and potentially higher concession fees would prevent deleveraging.

Duty-free sales in Hainan to stabilize in 2025



e--Estimate. Sources: Haikou customs, S&P Global Ratings.

Weak discretionary demand contributes to a thin ratings buffer

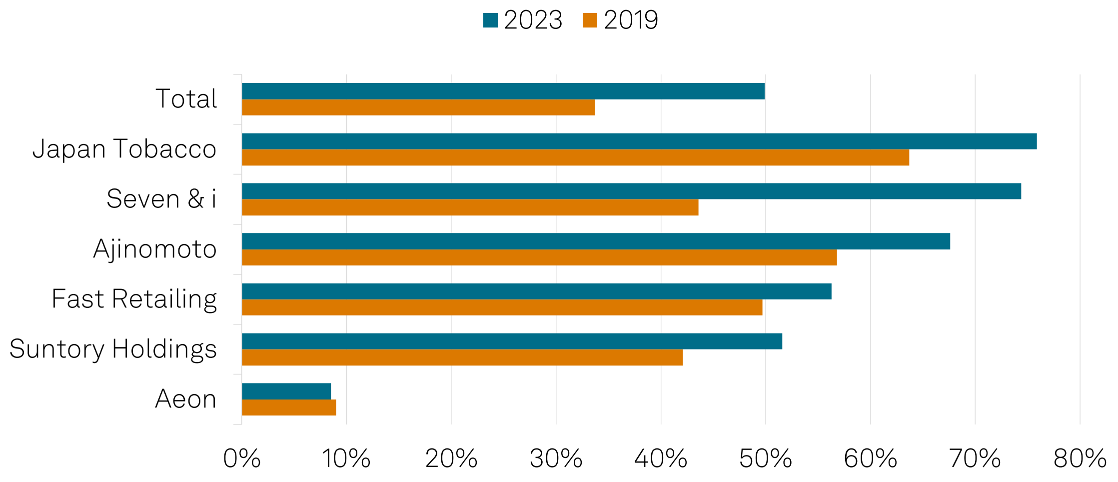


e--Estimate. Sources: Company data, S&P Global Ratings.

Case Study: Japan Inc. To Seek Growth Overseas

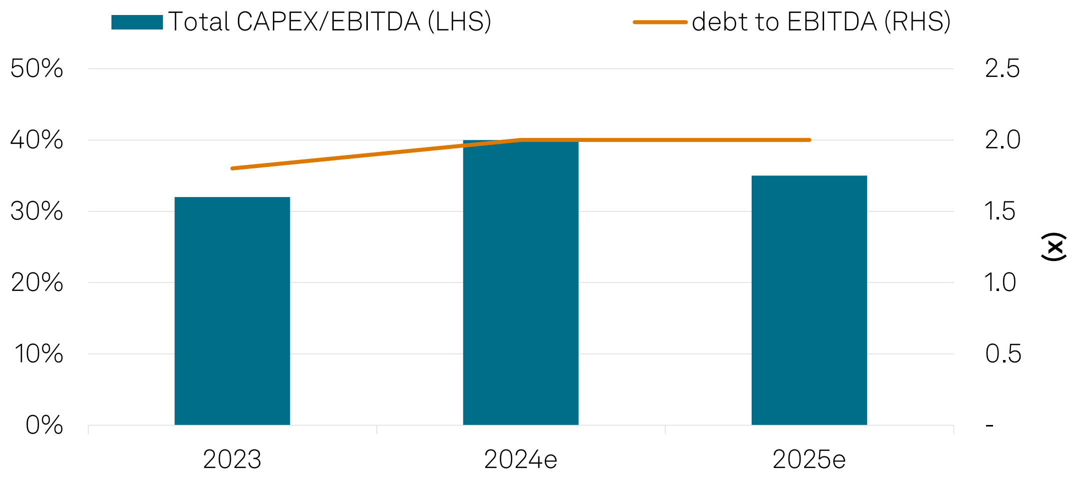
- Japan's aging population is pushing retail companies to look to overseas markets for earnings growth. For the six rated companies in retail and consumer products, the aggregated overseas sales ratio reached 50% in 2023 versus 34% in 2019.
- Seven & i HD and Suntory Holdings were active in M&A in recent years, while others such as Fast Retailing focused on organic growth to increase brand recognition globally. Strengthened global competitiveness would support the creditworthiness of each entity.
- Aggressive investments and the increasing size of acquisitions amid downside pressure on cash flow among this group of companies will keep their ratios of debt to EBITDA relatively high.

Increasing overseas operations will support competitiveness



Sources: Company financials, S&P Global Ratings.

Aggressive investments will keep leverage high

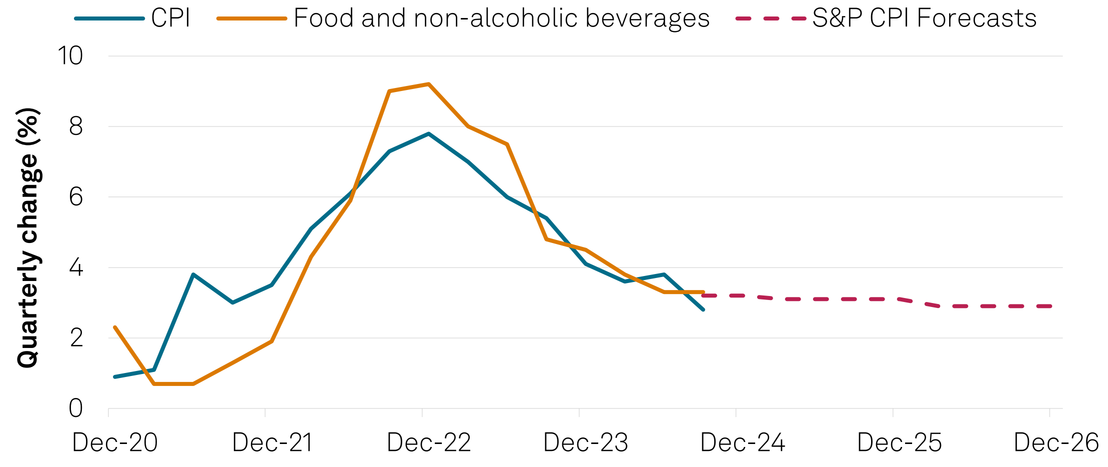


LHS--Left hand scale. RHS--Right hand scale. Sources: Company financials, S&P Global Ratings.

Case Study: Australian Supermarkets

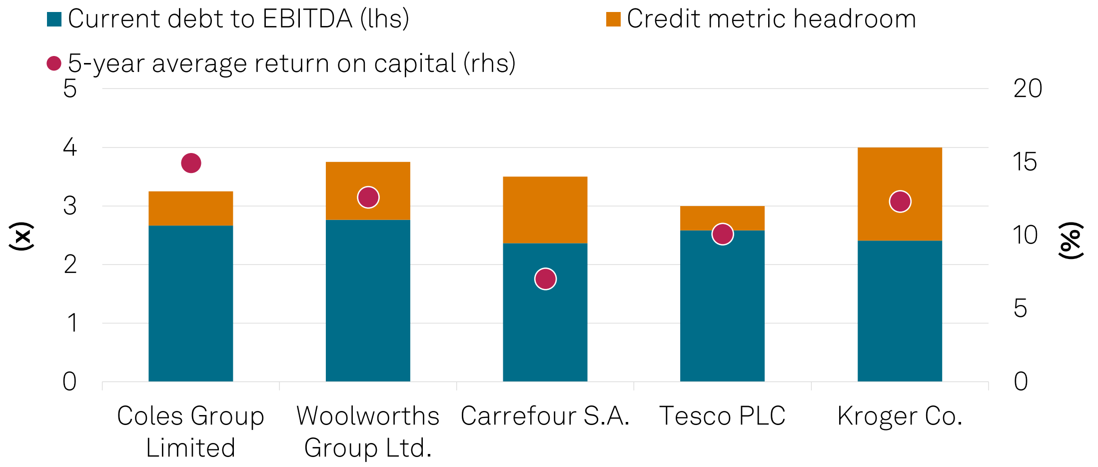
- Coles Group Ltd. (BBB+/Stable/--) and Woolworths Group Ltd. (BBB/Stable/A-2) account for 65%-70% of spending on Australian groceries. In 2024, the Australian Competition and Consumer Commission (ACCC) launched an inquiry into grocers' market structure, supply chains, and product pricing. This was aimed at addressing consumer concerns about the affordability of groceries. We will respond to the findings of the final ACCC report, due in February 2025, and assess the credit impact for Coles and Woolworths.
- Coles and Woolworths compare favorably with international peers in their margins and returns on capital. Both measures are important profitability metrics. Australian supermarkets require sizable capital investment to provide stores and distribution networks across sparsely populated locations. Returns on capital reflects this investment requirement.

Surging inflation across goods such as groceries in 2021-2022 have prompted consumer complaints, which continue



Sources: Australian Bureau of Statistics, S&P Global Ratings.

Coles and Woolworths maintain comfortable ratings headroom

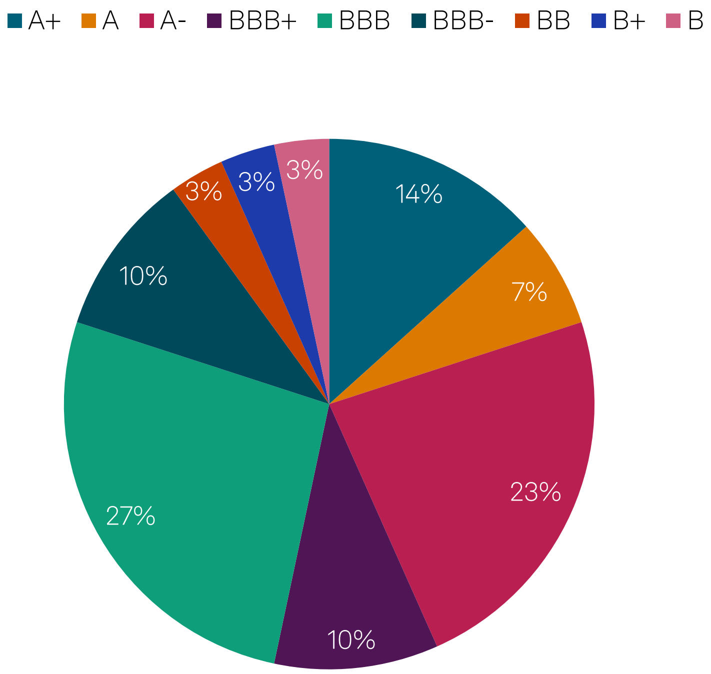


Data for Coles and Woolworths for fiscal year ending June 2024; Tesco for fiscal year ending February 2024; Carrefour for fiscal year ending December 2023; Kroger for fiscal year ending January 2024. Lhs--Left hand side. Rhs--Right hand side. Source: S&P Global Ratings.

4. Rating/Outlook Distribution

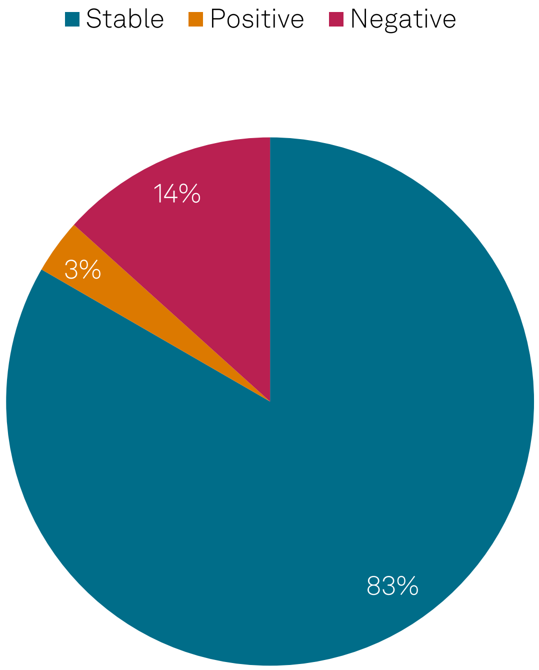
Rating And Outlook Distribution

90% of rated issuers are investment grade



Only publicly rated names are included. Ratings as of December 31, 2024. Source: S&P Global Ratings.

14% issuers are on negative outlook



Ratings as of December 31, 2024. Source: S&P Global Ratings.

APAC Consumer And Retail Ratings Issuers

Issuer	Rating	Outlook
China Consumer and Retail coverage		
Bosideng International Holdings Ltd.	BBB-	Stable
Bright Food (Group) Co. Ltd.	BBB	Stable
Bright Food International Ltd.	BBB-	Stable
China Mengniu Dairy Co. Ltd.	BBB+	Stable
China Modern Dairy Holdings Ltd.	BBB	Stable
China Tourism Group Corp. Ltd.	A-	Negative
COFCO (Hong Kong) Ltd.	A-	Stable
Fufeng Group Ltd.	BBB-	Stable
Haidilao International Holding Ltd.	BBB	Stable
Health and Happiness (H&H) International Holdings Ltd.	BB	Negative
Inner Mongolia Yili Industrial Group Co. Ltd.	A-	Stable
Jardine Matheson Holdings Ltd.	A+	Stable
JD.com Inc.	A-	Stable
Midea Group Co. Ltd.	A	Positive
Tingyi (Cayman Islands) Holding Corp.	A-	Stable
Vipshop Holdings Ltd.	BBB	Stable
WH Group Ltd.	BBB	Stable

Ratings as of December 31, 2024. Source: S&P Global Ratings.

Issuer	Rating	Outlook
Zhongsheng Group Holdings Ltd.	BBB	Stable
Japan Consumer and Retail coverage		
Aeon Co. Ltd.	BBB	Stable
Ajinomoto Co. Inc.	A+	Stable
Fast Retailing Co. Ltd.	A+	Stable
Japan Tobacco Inc.	A+	Negative
Seven & i Holdings Co. Ltd.	A	Stable
Suntory Holdings Ltd.	BBB+	Stable
Pacific Consumer and Retail coverage		
Coles Group Ltd.	BBB+	Stable
Fonterra Co-operative Group Ltd.	A-	Stable
Snacking Investments HoldCo Pty Ltd.	B	Stable
Wesfarmers Ltd.	A-	Stable
Woolworths Group Ltd.	BBB	Stable
Other Regions		
Japfa Comfeed Indonesia Tbk. PT	B+	Negative

Business And Financial Risk Profile Matrix

● China ● Japan ● Pacific ● Other region peers

Business risk profile	Financial Risk Profile: Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	• Amazon (AA/Stable/A-1+) • LVMH (AA-/Stable/A-1+)	• Walmart (AA/Stable/A-1+) • P&G (AA-/Stable/A-1+)	• Nestle S.A. (AA-/Stable/A-1+) • Coca Cola (A+/Stable/A-1) • Pepsi (A+/Stable/A-1) • Unilever (A+/Stable/A-1)	-	-	-
Strong	• Alibaba (A+/Stable/--) • Nike (AA-/Neg/A-1+) • Costco (A+/Stable/A-1) • Richemont (A+/Stable/--)	• Ajinomoto (A+/Stable/A-1) • Japan Tobacco (A+/Neg/A-1) • Fonterra Co-operative (A-/Stable/A-2) • Target (A/Stable/A-1) • Estee Lauder (A/WatchNeg/A-1)	• Jardine Matheson (A+/Stable/--) • Seven & i (A/Stable/--) • Suntory (BBB+/Stable/--) • Wesfarmers (A-/Stable/A-2) • Coles Group (BBB+/Stable/--) • Cargill (A/Stable/A-1) • Starbucks (BBB+/Neg/A-2)	• Aeon (BBB/Stable/--) • Woolworths (BBB/Stable/A-2) • Danone (BBB+/Stable/A-2) • McDonald's (BBB+/Stable/A-2) • Kering (BBB+/Stable/A-2) • Tyson Foods (BBB/Stable/A-2)	• COFCO (Hong Kong) (A-/Stable/--) • Whirlpool (BBB-/Stable/A-3)	• Yum! Brands (BB+/Stable/--)
Satisfactory	• JD.com (A-/Stable/--) • Midea Group (A/Pos/--) • Tingyi (A-/Stable/--) • Yili (A-/Stable/--) • Fast Retailing (A+/Stable/--)	• China Mengniu (BBB+/Stable/--) • WH Group (BBB/Stable/--) • Zhongsheng (BBB/Stable/--) • Best Buy (BBB+/Stable/--) • H & M Hennes & Mauritz (BBB/Stable/A-2)	• China Tourism (A-/Neg/--) • Bunge Global (BBB+/WatchPos/A-2) • AB Electrolux (BBB/Neg/A-2) • Darden Restaurants (BBB/Stable/A-2) • LG Electronics (BBB/Stable/--) • AutoNation (BBB-/Stable/A-3)	• Lithia Motors (BB+/Stable/--) • Penske Automotive (BB+/Stable/--)	• Bright Food (Group) (BBB/Stable/--)	-
Fair	• Bosideng (BBB-/Stable/--) • Haidilao (BBB/Stable/--) • Vipshop (BBB/Stable/--) • Uber (BBB-/Pos/--)	• Fufeng (BBB-/Stable/--) • Carter's (BB+/Stable/--)	• Smithfield Foods (BBB-/Stable/A-3)	• Health and Happiness (BB/Neg/--)	• Japfa Comfeed Indonesia (B+/Neg/--)	• Bright Food International (BBB-/Stable/--) • Snacking Investments (B/Stable/--)
Weak	-	-	-	• Papa John's International (BB-/Stable/--) • Grab (BB-/Stable/--)	• Canada Goose (BB-/Stable/--)	• CMD (BBB/Stable/--)
Vulnerable						• CEC Entertainment (B-/Stable/--)

Ratings as of December 31, 2024. Neg--Negative. Pos--Positive. CMD--China Modern Dairy Holdings Ltd. Source: S&P Global Ratings.

5. Related Research

Related Research

Commentary

- China Retail 2025 Outlook Subsidies Will Further Help Stabilize Spending, Jan. 7, 2025
- Economic Outlook Asia-Pacific Q1 2025: U.S. Trade Shift Blurs The Horizon, Nov. 24, 2024
- How Would China Fare Under 60% U.S. Tariffs?, Nov. 17, 2024
- Japan Corporate Credit Spotlight: Resilience Amid Adversity Abroad, Oct. 17, 2024
- Diverging Consumers And Slowing Demand Test Corporate Australia, Sept. 3, 2024
- New Zealand Corporate Landscape: Navigating A Sluggish Economic Recovery, Sept. 2, 2024

Notable rating actions and bulletins

- Health And Happiness Outlook Revised To Negative On Revenue Weakness; 'BB' Ratings Affirmed, Nov. 25, 2024
- Seven & i Holdings' Creditworthiness Threatened By Family's Buyout Plan, Nov. 14, 2024
- Outlook On Japan Tobacco Revised To Negative On Russia Risk; 'A+/A-1' Ratings Affirmed, Nov. 15, 2024
- China Tourism Group Corp. Ltd. And Hong Kong Subsidiary Outlook Revised To Negative; 'A-' Ratings Affirmed, Sept. 16, 2024
- Midea Group Co. Ltd. Outlook Revised To Positive On Stronger Market Position And Resilient Performance, Aug. 30, 2024
- Woolworths Earnings To Improve In 2025, Aug. 28, 2024
- Coles To Maintain Business Strength In 2025, Aug. 27, 2024
- Japan-Based Aeon's Acquisition A Portfolio Plus, Feb. 28, 2024

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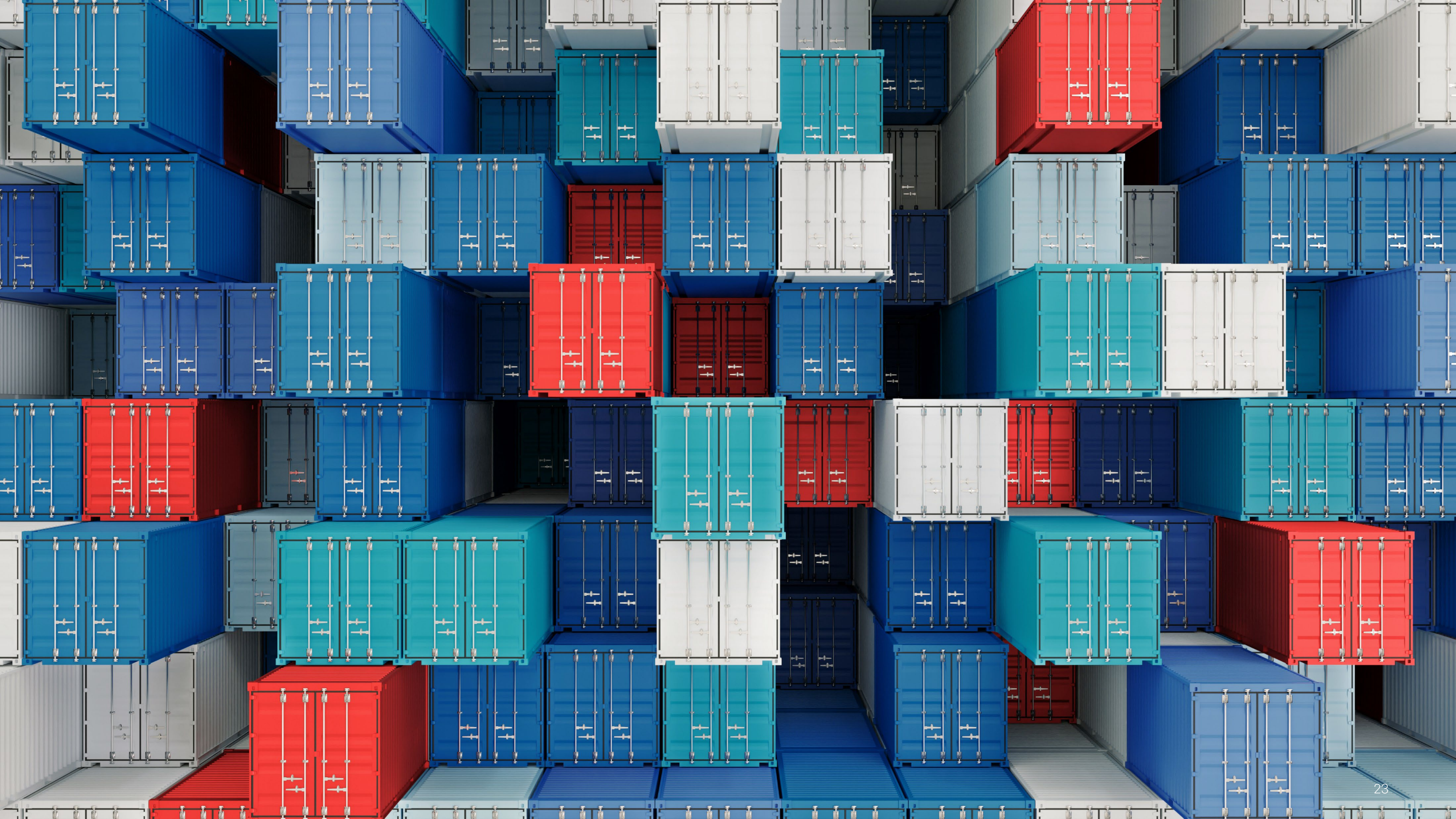

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