S&P Global
Ratings

Sector Roundup Asia-Pacific Q2 2021:

The Climb Back Is Steeper For Some

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Key Takeaways

- **Earnings upside.** We forecast median profit growth in the mid-to-high single digits in 2021 for nonfinancial corporates, reflective of the economic recovery.
- **Downside stabilizing.** Nevertheless, the damage from the COVID-19 crisis will remain a drag on issuer financials. The ratings on a net 16% of issuers have negative outlooks or are on CreditWatch with negative implications. While this ratio is a slight improvement over recent months, it still implies a significant likelihood of downgrades or defaults in 2021.
- **Market confidence risk.** The economic shock from COVID-19 was largely cushioned by governments printing money. This helped to support real asset prices and drive up financial asset prices. Investors and creditors could reset their risk-return requirements if they believe inflation is returning or possibly in response to a high-profile default. The resulting higher cost of debt and reduced access to funding could hit issuers with elevated debt loads, especially in harder COVID-hit sectors.

Overall. The economic recovery in Asia-Pacific indicates an upside to revenue in 2021. However, the substantial hit to borrowers' financials in 2020 means that a full recovery to 2019 credit metrics is unlikely for the majority of issuers until well into 2022. The ratings on a net 16% of issuers are on negative outlook or CreditWatch with negative implications, which implies a still significant likelihood of downgrades or defaults in 2021.

Rating actions. From the start of the COVID-19 crisis early last year up until Feb. 22 this year, we have taken negative rating actions on 39% of issuers we rate in Asia-Pacific; these actions include downward changes to rating, outlooks, or CreditWatch. (See "COVID-19- And Oil Price-Related Public Rating Actions On Corporations, Sovereigns, International Public Finance, And Project Finance To Date," published Feb. 24, 2021, on RatingsDirect.)

Nonfinancial corporates: Most need until 2022 before fully recovering. In our base-case scenario for rated nonfinancial corporates in Asia-Pacific, we forecast: (1) median profit growth in the mid-to-high single digits in 2021; (2) higher profits at nearly 90% of rated entities in 2021; and (3) average credit ratios that revert to pre-COVID-19 levels in the second half of 2022 for the majority of sectors (see "COVID-19 Heat Map: Some Bright Spots In Recovery Amid Signs Of Stability," published Feb. 18, 2021). Still, significant downside rating risks persist in 2021 despite the gradual recovery in revenues and profits because debt in 2020 kept rising. For rated nonfinancial corporates, we have net negative rating bias of 19% at end-March 2021.

The **essential retail, consumer staples** and **telecom** sectors were generally resilient in 2020, with a likely recovery to pre-COVID-19 levels in 2021. At the other end of the spectrum, we still expect a long recovery toward the second half of 2022 or 2023 for the **cyclical transportation** sectors (especially airlines), tourism-led sectors such as **lodging and gaming**, and **automobiles** given the sharp revenue and profit contraction that took place in 2020. The late recovering sectors remain **airports** and **oil and gas** (beyond 2023). **Airports** are unlikely to recover because restrictions on cross-border travel and border controls will likely remain in place until a comprehensive roll out of vaccines globally. From a regional standpoint, we now project the **tech hardware/semiconductors**, **utilities**, **metals and mining**, and **automobile** sectors will recover six to 12 months earlier than we anticipated six months ago.

Financial institutions: Credit losses will hit US$581 billion over 2020-2022. While COVID-19 is hitting lenders hard, we recently revised down our forecast of credit losses for China and the rest of Asia-Pacific over 2020-2022. Fiscal support and forbearance have contained damage, but downside risks remain as these programs unwind. This is contributing to the net negative ratings bias of 15% at end March 2021.

Insurance: Premium growth to resume amid COVID-19 containment. A gradual resumption of social interaction will see a return of traditional sales activities for life insurers. Low rates, volatile capital markets, and rising counterparty risk complicates insurers' reinvestment strategy. Insurers' appetite for credit and market risk may rise, consuming more capital. Unhedged foreign exchange exposure may see volatility in investment valuation amid U.S. dollar movements.

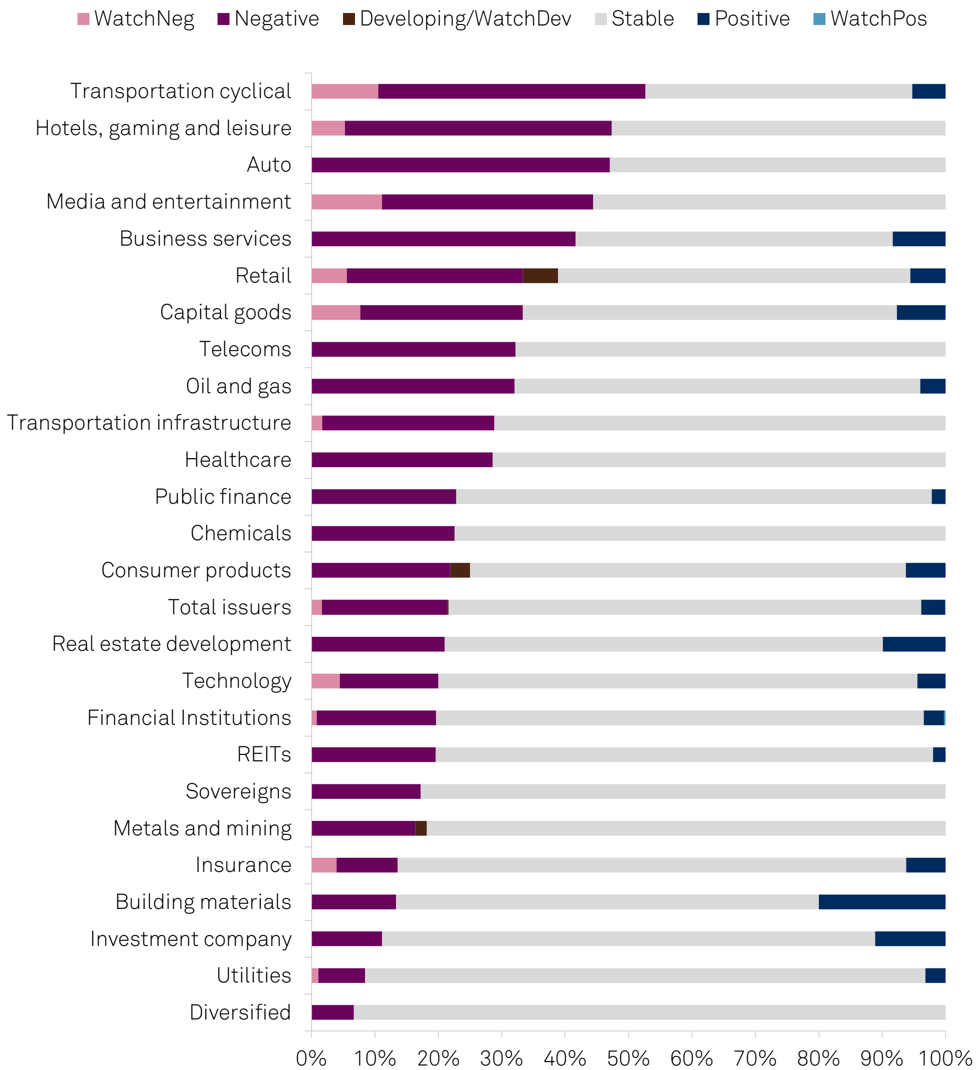
Public finance: Fiscal recovery generally lags economic recovery. The budget focus of local and regional governments (LRGs) has shifted from treating and containing the outbreak, to using capital spending to stimulate the economy. Large infrastructure spending was a contributing factor to our negative rating actions on Australia's top LRGs. We don't expect LRGs to effectively unwind their existing aggressive fiscal stimulus any earlier than 2022, but there is a migration to take more effective spending.

Sovereigns face risks to external demand. The recovery in advanced economies over June-September 2020 has supported export growth in Asia-Pacific. However, resurging COVID-19 infection rates in Western countries make continued Asian export growth less certain. On the plus side, lower global interest rates and energy prices remain supportive of regional economies. Risks in 2021 include a continued deterioration in U.S.-China relations, a worsening climate for international investment (triggering investment outflows from emerging markets), and lingering economic disruption stemming from COVID-19.

Structured finance: Consumer asset classes remain stable. Strength of household balance sheets in Asia-Pacific continues to support the strong collateral performance of consumer asset classes (asset-backed securities and residential mortgage-backed securities). New originators, low interest rates and changing regulatory landscapes may shift risk profiles across structured finance markets across the region.

Chart 1

Net Outlook Bias Distribution Of Asia-Pacific Issuers By Sector, Mar. 31, 2021



Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter; and a positive figure, vice versa. Source: S&P Global Ratings.

Table 1

Net Outlook Bias of Asia-Pacific Issuers by Sector, Mar. 31, 2021

	Feb. 2020	May 2020	Aug. 2020	Oct. 2020	Mar. 31 2021	No. of entities	Notional average rating
Auto OEM and suppliers	-23%	-71%	-67%	-65%	-45%	33	BBB
Building materials	0%	-13%	-20%	-13%	7%	15	BBB-
Business services	-8%	-25%	-36%	-42%	-25%	12	BB+
Capital goods	-7%	-15%	-15%	-19%	-24%	38	BBB
Chemicals	-20%	-30%	-46%	-31%	-26%	31	BBB-
Consumer products	-20%	-24%	-21%	-18%	-13%	31	BBB-
Diversified	13%	-7%	-13%	-13%	-7%	15	A-
Healthcare	-38%	-38%	-38%	-38%	-29%	7	BB+
Hotels, Gaming and Leisure	-25%	-78%	-67%	-44%	-42%	19	BB+
Investment company	-10%	-10%	-20%	-10%	0%	9	A-
Media and Entertainment	-29%	-22%	-22%	-44%	-40%	10	BBB+
Metals and mining	-7%	-24%	-22%	-24%	-17%	54	BB+
Oil and gas	-14%	-34%	-39%	-39%	-24%	25	BBB+
Real estate development	-8%	-11%	-11%	-12%	-9%	78	BB-
Real estate investment trusts	-6%	-25%	-22%	-18%	-16%	51	A-
Retail	0%	-31%	-38%	-22%	-29%	17	BBB-
Technology	-9%	-17%	-20%	-20%	-11%	47	BBB-
Telecommunications	-32%	-26%	-26%	-33%	-25%	28	BBB+
Transportation cyclical	-10%	-55%	-40%	-40%	-42%	19	BB+
Transportation infrastructure	-3%	-37%	-31%	-29%	-27%	59	BBB+
Utilities	3%	-5%	-6%	-4%	-5%	95	BBB+
Total corporates	**-9%**	**-25%**	**-25%**	**-23%**	**-19%**	**693**	**BBB**
Financial institutions	8%	-14%	-17%	-18%	-15%	378	BBB+
Insurance	15%	1%	-4%	-8%	-4%	177	A
Public finance	17%	2%	-10%	-12%	-20%	91	A+
Sovereign	12%	4%	-10%	-10%	-17%	29	BBB+
Total issuers	**1%**	**-17%**	**-19%**	**-19%**	**-16%**	**1,368**	**BBB+**

Light blue colored cells indicate improvement from prior period, navy blue, deterioration.

Table 2

Summary of Key Risks and Assumptions for Asia-Pacific's Industries

Sector	Key risks	Key assumptions
Autos	Severe sales weakness Supply chain troubles	Gradual and uneven recovery in global sales
Building materials	Resurgence of infections and ineffective vaccines Sharper global slowdown, slower recovery	Recovery to continue Curtailed capex and investment
Capital goods	Delay risk in recovery Aggressive spending for growth	Debt-to-EBITDA ratios in 2021 will be weaker than 2019 levels
Chemicals	China fails to bounce back in 2021 Volatile oil prices	Chemical sector to remain exposed to macro weaknesses in the region Polymer spreads to remain subdued amid supply gluts and slack demand
Consumer products	Further lockdown Changing consumer habits and tastes	Discretionary to fully recover in 2022
Financial institutions	A downturn that is more severe than our base case Leverage, corporate insolvencies, and property	Strong economic rebound Highly supportive governments
Gaming	Resurgence of COVID-19 cases despite vaccine progress New strains of COVID-19 cases M&A and gaming licenses risk	Japan integrated resorts remains an event risk
Insurance	Heightened earnings volatility COVID-19 resurgence and stimulus withdraw	Capital buffers will narrow Yield chase to pick up Greater insurance protection awareness
Media and entertainment	Tightening regulations could dampen growth for China's internet giants. Speed of economic recovery and intensity of regulatory actions. Liquidity crunch	Advertising revenues to rebound in 2021, though it could vary across the region.
Metals and mining	Demand risk for commodities Financial policy Environmental, social, and governance (ESG) factors	Improving recovery path
Oil and gas	Prolonged pandemic Structural change in oil demand	Brent at US$60/barrel for 2021 and 2022
Public finance	Aggressive stimulus Contagion fears	Varying scope for countercyclical measures
Real estate development	More polarization in China with the restrictive funding environment Pressure remains for developers with weak liquidity profiles	Expect flattish property sales in China, and moderate recovery in Indonesia in 2021
Real estate investment trusts	Rental pressure could continue Lower asset value could dampen refinancing	High vacancy rates to linger Fixed-rent structures for retail leases may change
Retail	Further waves of COVID-19 Shareholder-friendly policies and higher capex could cause challenges	Challenging deleveraging paths Higher capex requirements to enhance digital capabilities will weigh on retailers
Sovereign	COVID-19 variants Sudden capital swings Dampened export recovery may put pressures on growth and fiscal recovery	Global economic activity will recover without major volatility

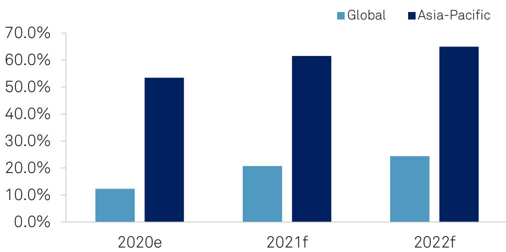
Summary of Key Risks and Assumptions for Asia-Pacific's Industries (cont.)

Sector	Key risks	Key assumptions
Structured finance	Shocks to fragile consumer confidence Potential risks for new China auto loan ABS Support measures tapering in Australia	Structural supports Regulatory shift will affect issuance
Technology	Uncertain COVID-19 trajectory Faster technology shifts	A stronger rebound in global IT spending
Telecommunications	Deeper recession Intense competition	Ongoing acquisitions Growing 5G services
Transportation cyclical	Liquidity crunch High uncertainty over the recovery of travel patterns	Global air traffic won't return to normal until 2024
Transportation infrastructure	Elevated macro and geopolitical risks Weaker support	Lasting damage Some flexibility in capital expenditure Caution in lifting international restrictions
Utilities	Unwinding of economic support and COVID resurgence Pace of new investments and funding	Profitability to improve as demand returns Capital expenditure growth to resume

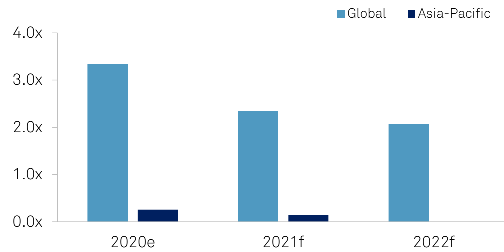
Auto

Negative Bias Moderating As Sales Recovery Continues

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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

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Key Takeaways

- As a result of a recovery in global car sales, negative rating bias in Asia-Pacific auto companies is likely to moderate in 2021.
- Still, some pressure on cash flows will continue due to prolonged impact of COVID-19 and high R&D expenditure for new technologies, such as electrification.
- Asia-Pacific automakers still retain generally solid financial standing with low debt.

What's changed?

Downward rating pressure moderates. Our base case assumes global light-vehicle sales will improve 6%-8% year over year in 2021, after a 15% drop in 2020. Automakers' strategic efforts, such as cost reduction and new model rollout, are also decreasing the downside risk of their creditworthiness.

Key risks

Severe sales weakness. Weak sales in key markets such as the U.S. and Europe could significantly hurt earnings of select Asia-Pacific automakers again. A serious resurgence of COVID-19 or large product recalls could result in such a scenario.

Supply chain troubles. Prolonged semiconductor shortage could negatively affect automakers' production and earnings in 2021. More lockdowns may bring another round of component shortages, logistic disruptions, and labor outages.

Key assumptions

Gradual and uneven recovery in global sales. China is likely to register growth of 4%-6% in 2021, after only a slight decline (1.9%) in 2020. We expect U.S. light-vehicle sales to rise by 10%-15% year over year to over 16 million in 2021. In Europe, we expect a protracted recovery in 2021 (6%-8%) after a 21% decline in 2020.

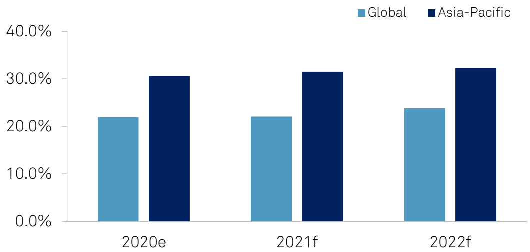
What to look for

Signs of cash flow stability. We expect additional restructuring, inflexible R&D costs and capital expenditure, and an increasing number of non-internal combustion engine (ICE) vehicles to depress profitability and cash flows over the next two years. How Asia-Pacific automakers will manage the pressure on free operating cash flow is an increasingly important analytical focus amid an uncertain operating environment.

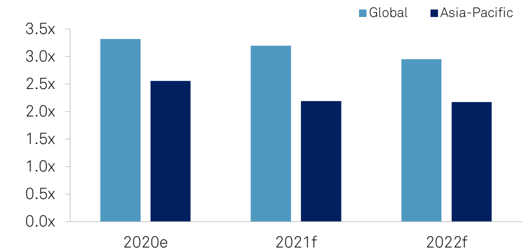
Building Materials

Economic Rebound To Support Demand

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. Includes "Forest Products, Building Materials, and Packaging" entities.
FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- Vaccination has been gaining momentum in several countries, and may lead to continuous economic recovery. Pockets of COVID-19 resurgence and effectiveness of vaccines are key risks. Infrastructure investment, and to a lesser extent property investment, are supporting demand in China.
- Credit trends over the next few years are resilient, driven by our expectation of economic recovery and rated corporates' efforts to deleverage by controlling capital expenditure.
- Overcapacity, especially in China, may be a structural risk lasting beyond 2020.

What's changed?

Vaccination gaining momentum. This may lead the way to normalcy, although the effectiveness of vaccines will be tested on a broader scale and it takes time to have a larger population vaccinated. Yet continuous economic recovery has led to improvement in the net rating bias of building materials companies over the last two quarters.

Key risks

Resurgence of infections and ineffective vaccines. Although the recent number of new cases is falling, the risk of resurgence remains, as we have seen in the past year. The effectiveness of vaccines is being tested on a wider scale through vaccination programs in a rising number of countries.

Sharper global slowdown, slower recovery. A weaker resumption of economic activity in Asia-Pacific than we expected could strain the prices and demand for building materials. This adds to limitations, such as overcapacity in China.

Key assumptions

Recovery to continue. Our economists expect a general economic recovery for Asia-Pacific in 2021 from contractions in 2020 for most countries. As vaccination rollouts proceed, a gradual improvement in economic activity will boost demand for building materials.

Curtailed capex and investment. Companies are likely to restrain their capex and acquisitions over the next two years as they remain cautious about the recovery path from COVID. Therefore, we forecast largely stable debt levels and operating cash flows for Asia-Pacific building material companies for the next two years.

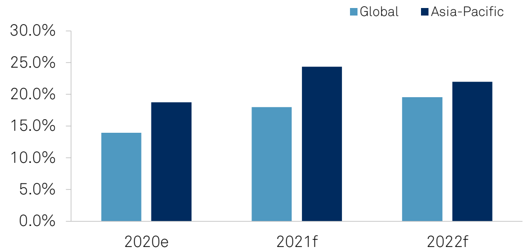
What to look for

COVID-19 containment and vaccines. The pandemic's global path and the effectiveness of vaccines remain the ultimate determinant of economic recovery and demand for building materials. Oversupply and liquidity risks persist for smaller players, particularly in China.

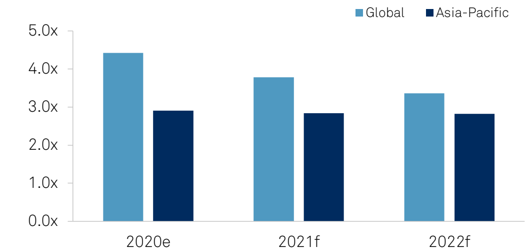
Capital Goods

Growing Expectation Of Faster Recovery

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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Key Takeaways

- We expect a recovery in earnings and lower leverage for Asia-Pacific capital goods companies.
- Credit metrics will closely recover in 2021 to 2019 levels.
- Restart of investment for growth and shareholders' return will be a risk for ratings.

What's changed?

Although the net negative bias in ratings has increased, recovery was stronger than we expected in some end-markets. Our net negative bias edged up to negative 24% from negative 19% in October 2020, led by more company-specific issues. Overall, the earnings performance of capital goods companies in Asia-Pacific was stronger than forecasted for October-December 2020, particularly in China and in some end-markets such as auto, electronics, and 5G.

Key risks

Delay risk in recovery. Corporate spending and exports will not recover in Asia-Pacific if there are delays in vaccine rollout and if the pace of recovery in the global economy is slower than expected. That's despite the Chinese government's stimulus measures and somewhat stronger vigor than we anticipated in some end-markets such as auto and electronics.

Aggressive spending for growth. The majority of rated capital goods firms are on a deleveraging track in 2021, but some companies with stronger recovery will likely restart investment for growth, delaying the recovery in credit metrics.

Key assumptions

Debt-to-EBITDA ratios in 2021 will be weaker than in 2019. We assume weak global economies and fragile consumer sentiment will lead to cautious capital investment, offset by stronger recovery in some end-markets in the auto, electronics, and Chinese infrastructure sectors. Corporate EBITDA across Asia-Pacific remains weak in 2021, when compared to 2019, though moving towards increasingly positive levels.

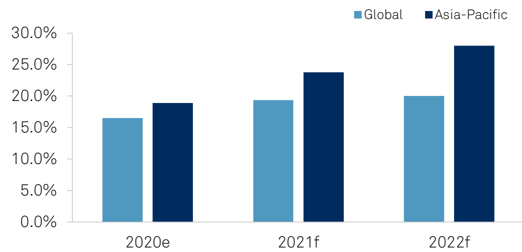
What to look for

Continuous recovery in earnings. Earnings recovery and deleveraging should continue for Asia-Pacific's capital goods sector over the next couple of quarters, even though the pace of recovery may be slower than we now expect. Some end-markets, such as aviation, will hit an earnings bottom in 2021 (in 2020, most of the end-markets hit bottom), leading to a performance gap among rated peers.

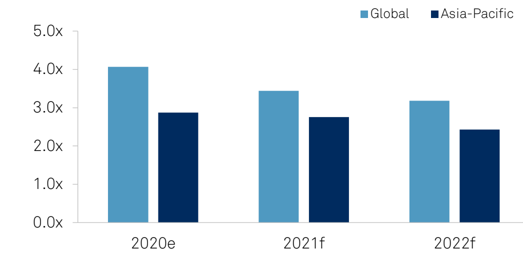
Chemicals

Ample Expansion Plans Remain An Overhang

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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Key Takeaways

- Polymer spreads have recovered on lower feedstock prices, as well as temporary production shutdowns in the region.
- Nevertheless, we expect spreads to remain below mid-cycle levels, given subdued demand as economies stay weak.
- Ample global capacity expansion plans over the next two to three years will also constrain further improvement in chemical spread.

What's changed?

Supply constraints to be short-lived. We see improving polymer spreads as an outcome of the collapse in crude oil prices. In addition, the buildup of inventory restocking demand ahead of the Lunar New Year further bolstered recent polymer spreads. Nevertheless, we believe spreads will remain below mid-cycle levels as ample expansion plans continue to overshadow supply-demand dynamics in the sector. Although Asia-Pacific demand is picking up alongside a gradual reopening of regional economies, we remain skeptical of a sustained widespread recovery.

Key risks

China fails to bounce back in 2021. Considering that China is the global demand driver for petrochemical goods, any unforeseen economic slowdown could further weaken the sector's supply-demand balance.

Volatile oil prices. Big oil price moves--up or down--could pose risks to chemical producers. Entities may be able to pass on a sharp oil price hike to buyers of chemical products. Meanwhile, a sharp decline in product prices could sideline buyers as they wait for the market to bottom before resuming their purchases.

Key assumptions

Chemical sector to remain exposed to macro weaknesses in the region. The pandemic has been particularly hard on the chemical sector. Our net ratings bias for Asia-Pacific chemical issuers is negative 26%. This compares with negative 20% a year ago.

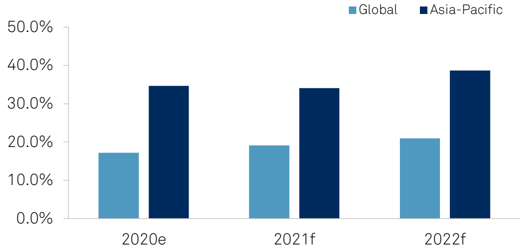
What to look for

Polymer spreads to remain subdued amid supply gluts and slack demand. We expect petrochemical product spreads to show limited recovery over the next 12 months as the supply glut persists. That's our base case. Keep in mind, however, that movements in this industry can be swift. If the pandemic abates, demand could quickly improve.

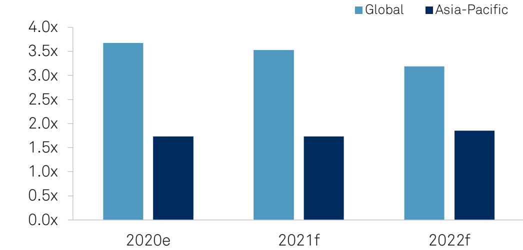
Consumer Products

Discretionary Goods To Recover In 2022

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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Key Takeaways

- Demand for discretionary goods has normalized for COVID-resilient countries, but recovery in South-east Asia may be slower in 2022.
- A slower vaccine rollout than we currently expect and virus mutations could dampen recovery in discretionary goods and food service channels.
- Credit quality ahead will depend on balance sheet strength, diversity of distribution channels, and operating efficiency.

What's changed?

Divergence of discretionary recovery across Asia-Pacific. Consumer sentiments continue to recover with vaccine rollouts, and certain countries seem to have the disease well under control (China, Vietnam, Australia, etc.). While these countries may see a discretionary recovery sooner in 2021, we anticipate a slow recovery in populous Southeast Asian countries given lower e-commerce penetration and the logistical and regulatory bottleneck in vaccine rollouts.

Key risks

Further lockdown. Discretionary sales and food service in South-east Asian countries such as India and Philippines will feel more pain than in 2020 if the government enforces strict lockdown given their more fragile conditions after previous waves.

Changing consumer habits and tastes. Companies' ability to adapt to consumer tastes and shopping habits, and to the rise of online sales, are essential to success during the COVID era and beyond.

Key assumptions

Discretionary to fully recover in 2022. Sales in China, Japan, Australia, and Korea have largely normalized while consumption in India and Indonesia remains weak. We expect the top line for discretionary goods to reach pre-COVID levels in 2022 under the assumption of widespread immunization by the end of 2021 (in developed countries) or later (emerging countries).

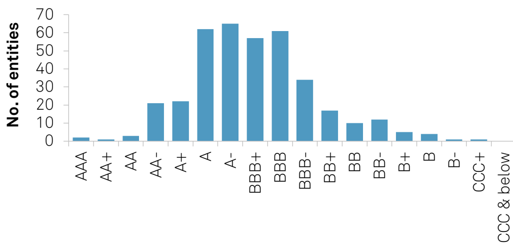
What to look for

Access to funding and unemployment. Entities' operating controls and their ability to manage liquidity will be a key differentiator of credit quality, especially when domestic funding growth slows (e.g. China). The speed of vaccine rollouts and the persistence of high unemployment in some markets will be important to consumer confidence and company performance.

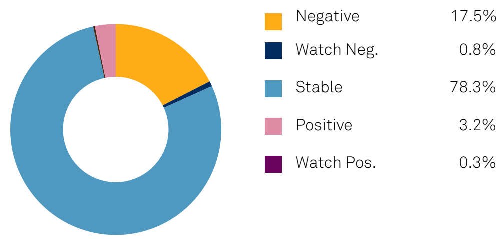
Financial Institutions

COVID-Related Credit Losses To Hit US$581 Billion By End-2022

Rating Distribution



Outlook Distribution



Source: S&P Global Ratings. As of Mar. 31, 2021.

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Key Takeaways

- While COVID-19 is hitting lenders hard, we recently revised down our forecast of credit losses for China and rest of Asia-Pacific over 2020-2022.
- Fiscal support and forbearance have contained damage, but downside risks remain as these programs unwind.
- We estimate that credit losses will rise by about US$581 billion to year-end 2022 because of COVID-19 and other market stresses.

What's changed?

Still-high credit losses. Our updated forecast (in January 2021) for the increase in bank credit losses because of COVID-19 is US$581 billion for 2020-2022 (over three years). Compared with 2019 credit losses of US$329 billion, the potential for credit losses remains significantly higher. This is contributing to negative ratings pressure.

Support from authorities is aiding resilience. Fiscal and monetary policy support and regulatory forbearance are significant buffers. But for this support, ratings would likely be lower.

Key risks

A downturn that is more severe than our base case. A more severe or prolonged economic hit will intensify damage on households and corporates, thereby magnifying credit losses. Any meaningful delays in the availability of a widely distributed vaccine will have a negative economic effect, which will likely have negative spillover effects on bank credit.

Leverage, corporate insolvencies, and property. Higher corporate and government sector leverage, and anticipated higher corporate defaults in 2021, are also among our top risks. Further, Asia-Pacific banks have significant property exposures--a disorderly asset price correction would heighten asset quality problems.

Key assumptions

Strong economic rebound. Bank earnings will improve after the economic recovery. A return to pre-COVID-19 levels is not likely until end-2022 for some banking systems, longer for others.

Highly supportive governments. Continuing short-term support by public authorities will have a stabilizing effect on bank credit. Further, we expect many systemically important banks will get extraordinary government support, if ever needed.

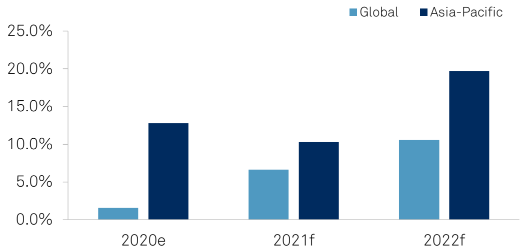
What to look for

End of supports and moratoriums. Households and businesses may struggle to meet financial obligations after loan moratoriums and government support end, hitting banks' asset quality. Subdued interest margins remain, given persistent low interest rates.

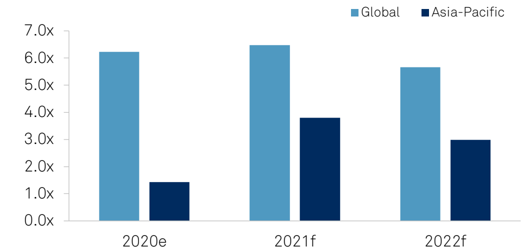
Gaming

Slow, Bumpy Road To Recovery

FFO/Debt (Median, Adjusted)

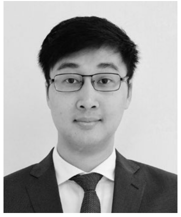


Debt/EBITDA (Median, Adjusted)



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

Primary Credit Analysts



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Key Takeaways

- Negative rating bias remains with slower revival of gross gaming revenue than we previously expected from pockets of COVID-19 resurgence.
- Premium mass-market gaming will recover faster than that of VIP and base mass, supporting issuer cash generation and EBITDA.
- Operators have solid liquidity profiles that should help to mitigate risks if the recovery is slower than expected.
- M&A and regulatory risks are increasing for some players.

What's changed?

Resurgence of COVID-19 cases despite vaccine progress. Pockets of COVID-19 resurgence in Asia-Pacific markets are likely to dampen the speed of recovery for operators. Strong local demand amid travel restrictions continue to support casinos' cash flows.

Key risks

New strains of COVID-19 cases. A material rise in new strains of the COVID-19 virus could lead to closure of casinos for longer while vaccines adapt.

M&A and gaming licenses risk. Regulatory risks in Australia threaten the competitive positions of Crown Resorts Ltd. over governance issues. In Macau, we do not assume any existing operators to lose their licenses that will expire in June 2022. M&A is back on the agenda following Blackstone's unsolicited offer for Crown Resorts.

Key assumptions

Japan integrated resorts remains an event risk. The announcement of license awarded operators will likely be pushed back to mid-2022, at the earliest, due to COVID-19. We believe operators will not incur any major spending before 2023, and that integrated resorts won't come online until 2026-2028.

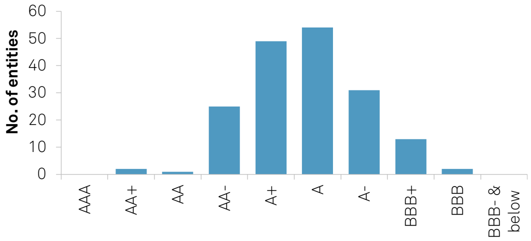
What to look for

Soft credit metrics in 2021. Sustained high debt-to-EBITDA ratios above our downgrade thresholds continue to be a key downside risk. Shareholder friendly capital management initiatives could add further pressure to weakened ratings affected by the COVID-19 pandemic.

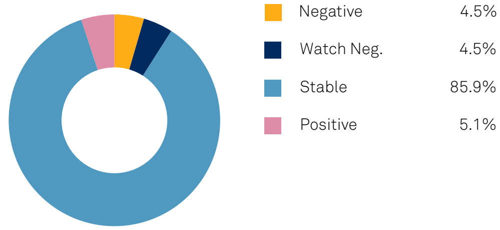
Insurance

Premium Growth Resumes Amid Containment

Rating Distribution



Outlook Distribution



Source: S&P Global Ratings. As of Mar. 31, 2021. Includes public ratings only.

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Key Takeaways

- Negative bias reduced while still-volatile markets may dilute financial strengths.
- Reinvestment challenges and rising counterparty risk will prompt higher investment risk appetite for yield hunt.
- Insurance sales to return with increasing face-to-face interaction following COVID-19 containment.

What's changed?

Reinvestment challenges to persist. Still-low rates, volatile capital markets, and rising counterparty risk complicate insurers' reinvestment strategies, which could see higher appetite for credit and market risks. Unhedged foreign exchange exposure may result in volatile balance sheets.

Resumed premium growth amid COVID-19 containment. Gradual resumption of social interaction will see a return of sales activities for life insurers. In China, increased awareness of insurance protection post-pandemic facilitates strong growth momentum. Property and casualty insurers' top-line growth should benefit from economic recoveries, though remain lower than pre-COVID levels.

Key risks

Heightened earnings volatility. Markets that adopt moving-average discount factors could face hikes in reserve. A sharp equity market correction could also dilute insurers' capital and earnings.

COVID-19 resurgence and stimulus withdraw. Pickups in unemployment and withdrawal of stimulus signify rising lapses and reduced insurance cover, in particular mortgage insurance providers. Renewed COVID-19 restrictions would induce additional business interruptions and event cancellation claims.

Key assumptions

Capital buffers will narrow. Financial market volatility and lower prospective earnings will eat into capital. The rising frequency of natural catastrophes in Asia-Pacific will also raise reinsurance-related costs.

What to look for

Yield chase to pick up. Insurers' appetite for credit and market risk will sharpen. Capital market volatility will likely narrow capital buffers.

Greater insurance protection awareness. Demand for health and medical insurance coverage will rise, post pandemic.

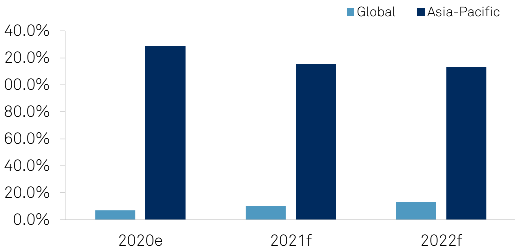
Non-modeled risks. Rapid urbanization and increased frequency of weather-related events make it harder to model risks. Increased reinsurance cost should weigh on the profit margins of property and casualty insurers.

Regulatory and accounting updates. Evolving regulatory and accounting developments signify prospective changes in business and investment strategies, and result in rising operational costs.

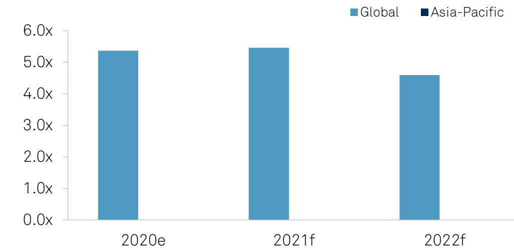
Media And Entertainment

Regulatory Hurdles Add To Uncertainty

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- China's tightening of antitrust and fintech regulations could decelerate growth and pressure margins for large Chinese internet companies.
- Vaccine rollout is likely to be uneven across Asia and timing of a recovery for many Asia-Pacific media and entertainment companies will be uncertain.
- Liquidity remains the key risk for many of the smaller media and entertainment companies, especially those exposed to live events.

What's changed?

Tightening regulations could dampen growth for China's internet giants. We believe dominant Chinese internet companies and some e-commerce companies could face slowing growth or margin pressure due to increased scrutiny by regulators. This could result from possible delays in acquisitions or investments as these companies evaluate the new regulatory environment, or from intensifying competition as large internet companies cut down on anticompetitive practices and smaller internet companies are given more room to grow.

Key risks

Speed of economic recovery and intensity of regulatory actions. Advertising is highly correlated to economic growth. A prolonged recovery path would likely result in a sharper decline and a slower recovery of advertising revenues, including online advertising. More severe regulatory outcomes could also slow the pace of growth for some internet players in China.

Liquidity crunch. Smaller media and entertainment companies could face more severe liquidity issues, especially those with heavy exposure to live events, given little or no revenues during the outbreak. Tightening credit markets, particularly for speculative-grade issuers, will exacerbate liquidity issues for these companies.

Key assumptions

Advertising revenues to rebound in 2021, though it could vary across the region. Advertising revenues should rebound this year, after setting a low base in 2020 and because of a possible economic recovery attributed to vaccine rollouts toward the second half of 2021. However, the pace of vaccine rollouts, and hence the economic recovery, is likely to differ in each country.

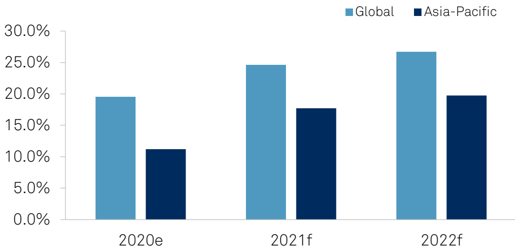
What to look for

Normalization of consumer behavior. How some media and entertainment companies will fare in 2021 will depend on whether consumers return to their normal routines once the vaccines are rolled out. Continued caution by consumers to attend events with large gatherings could continue to hurt companies exposed to live events or big venues. However, consumers' online habits are likely to stick post-COVID, benefitting online service providers and internet platforms.

Metals And Mining

Vaccinations To Restore Vigor In 2021

FFO/Debt (Median, Adjusted)



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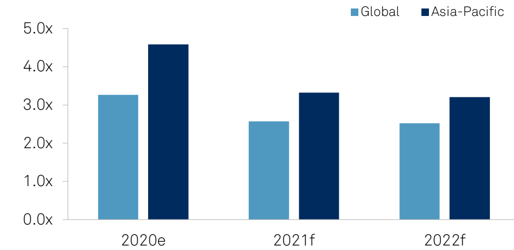

Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- The launch of COVID-19 vaccines boosts optimism for a faster market recovery than we previously expected.
- Improving commodity prices, a reopening of regional economies, and fiscal stimulus should help the sector.
- A slack recovery would undermine growth, hurt sentiment, and add volatility to commodity prices.

What's changed?

The rebound is better than we expected. With Asia-Pacific still emerging from the pandemic but still far from resuming full-blown industrial production, we see a vastly improving outlook for metals and mining in 2021.

Robust price environment. Prices for most metals have shot up since mid-2020, on the back of China's stimulus-led re-opening, which resulted in China's full-year steel output reaching a record 1.05 billion metric tons in 2020. What's good for the Chinese economy is good for the mining industry.

Key risks

Demand risk for commodities. The risk of continued COVID-induced economic weakness weighs on demand for key commodities, hitting sentiment and making prices volatile. Any reduction in stimulus in China could weaken demand, adding volatility to prices.

Financial policy. A return of heavy spending on capital expenditure or shareholder distributions may erode miners' liquidity, refinancing prospects, and balance sheets.

Environmental, social, and governance (ESG) factors. Access to capital is becoming increasingly challenging for metals and mining companies with poor ESG profiles.

Key assumptions

Improving recovery path. Prices are rebounding sharply from pandemic-induced lows and improving demand. The ongoing economic recovery in Asia and the release of COVID-19 vaccines have further fueled optimism that the market will recover more quickly. Our base-case now envisages the industry returns to pre-COVID-19 levels by second half of 2021.

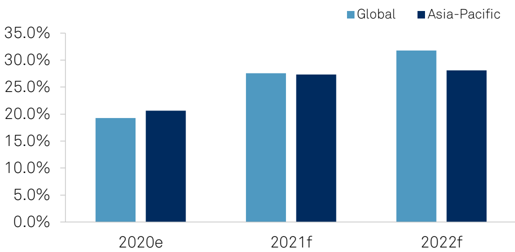
What to look for

COVID-19, China, and global trade. Given that China accounts for over half of global demand for raw materials, a prolonged weakness in demand from its downstream sectors may strain global miners. So long as resurgent pandemic risks do not result in widespread extended lockdowns, we expect momentum to carry-over to 2021.

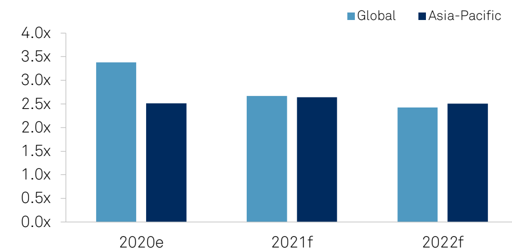
Oil And Gas

Long-Term Industry Risks Are Rising

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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Key Takeaways

- Recent oil price strength is supported by demand recovery, production cuts, and geopolitical risk.
- Our US$60/barrel Brent assumption for 2021 and 2022 reflects the willingness of oil-producing countries to support oil prices by constraining production, though further normalization of production will limit the upside of oil prices.
- We recently revised the industry risk for oil and gas, resulting in a number of downgrades for international oil companies. Rated Asia-Pacific companies are less affected.

What's changed?

Oil prices strengthened lately. Brent oil price has risen above US$60/barrel on continuous demand recovery, production cuts by OPEC and Russia and geopolitical risks. Yet the sustainability of these factors will determine the oil price trend. Following our revision of industry risk for oil and gas integrated, exploration & production, we lowered ratings for a number of international oil companies. Our rated Asia-Pacific oil companies are less affected, given many of them are government linked national oil companies.

Key risks

Prolonged pandemic. Slow vaccination rollout means widespread immunity will take time to achieve. Meanwhile, effectiveness of vaccines remains to be tested. A prolonged pandemic will delay demand recovery and therefore affect oil prices.

Structural change in oil demand. Long-term oil demand due to ESG and energy transition are rising secular risks. More governments are setting target dates for net zero carbon emissions and banning the sale of fossil-fuel-powered vehicles. Financial institutions may become increasingly reluctant to finance hydrocarbon projects or companies. Companies with weaker balance sheets and financing capabilities will be impacted.

Key assumptions

Brent at US$60/barrel for 2021 and 2022. Demand recovery and tight supply from oil producing countries underpin the rebound of oil price from 2020. That said, we do not expect OPEC to let oil prices be sustained above $70/barrel for an extended period, for fear of reactivating a material surge in U.S. shale production. We maintain our Brent assumption at US$55/barrel in 2023 and beyond, reflecting secular shifts in industry risks which may see lower demand for oil.

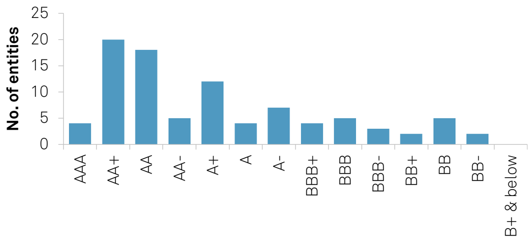
What to look for

COVID-19 containment and supply response by oil producers. With vaccination underway in an increasing number of countries, the pace of demand recovery, especially air traffic, will determine the support for oil price from the demand side. On the supply side, OPEC and Russia's review of production cuts will signal what oil price range they are comfortable with.

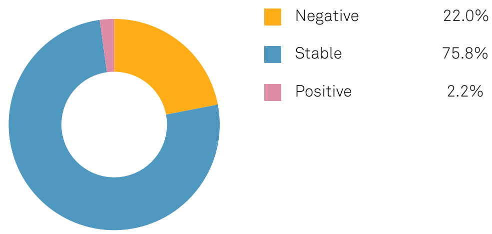
Public Finance

New Policy Measures To Fit Recovery

Rating Distribution



Outlook Distribution



Source: S&P Global Ratings. As of Mar. 31, 2021.

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Key Takeaways

- Fiscal recovery generally lags economic momentum in most systems.
- Selected LRGs are committing to high capital spending plans, such as those in Australia, China, and India, and won't completely unwind existing aggressive fiscal stimulus any earlier than 2022.
- Japanese and New Zealand LRGs still keep greater spending discretion to prompt a recovery.

What's changed?

Economic rebounds to provide more options for LRGs. The budget focus has shifted from treating and containing the outbreak, to using capital spending to stimulate the economy. In the case of China, the burden will fall mostly to LRGs as the budget indicates national-level spending will revert. Stronger recovery than we expected in some areas will provide LRGs with capacity to decide their spending in the most effective manner.

Mixed ratings actions. Large infrastructure spending was a contributing factor to our negative rating actions on Australia's top LRGs, while our upgrade of New Zealand sovereign ratings combined with a quick economic rebound lifted our ratings on a few public entities that were previously constrained by sovereign ratings.

Key risks

Aggressive stimulus. Fiscal revenues will remain dented for most LRGs, even as pressure to spend remains high. Repeated waves of infection or sputtering vaccination drives would worsen these strains.

Contagion fears. Fears will continue to prevent travel and hinder consumption in Asia. Vaccination progress is becoming a race against virus variants, and such variants will make countries cautious on reopening borders. This is a weight for some pandemic-sensitive public-finance segments such as Australian universities.

Key assumptions

Varying scope for countercyclical measures. Most LRGs will not raise taxes and are unlikely to recover their revenue bases soon. Uncertainties on the recovery will spur LRGs to increase spending, especially capital expenditure to sustain growth. This will create greater risk to their fiscal standing. Australian and New Zealand LRGs have greater spending discretion to prompt a recovery, but this is weighing on their finances. China's LRGs can still rely on large cash transfers and new borrowings, subject to ongoing support from the central government. The finances of Indian LRGs remain stretched and further handicapped by limited financial flexibility. Japanese LRGs will look to the central government to undertake nationwide economic stimulus, rather than squeezing their already-damaged budgets.

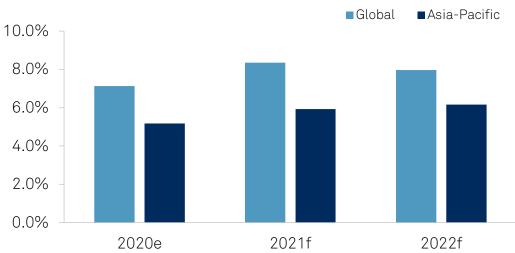
What to look for

Policy shifts. Any aggressive LRG fiscal expansion, either to sustain growth or to control social stability, could erode credit quality. LRGs in economies experiencing stronger economic rebounds should be able to normalize more quickly. That said, China is one of the first to recover, yet we see scope for accumulated stress to strike state-owned enterprises. Any moves to provide large-scale bailouts to stressed entities would be a credit negative.

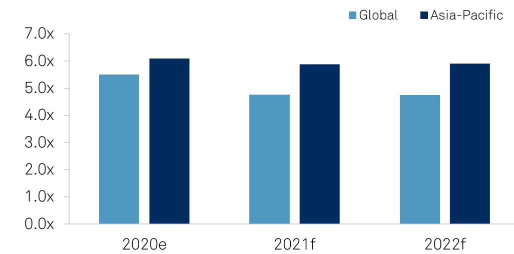
Real Estate Development

Increasing Stresses For Weaker Players

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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Key Takeaways

- Property sales are likely to slow in China in 2021. Sales should stay well below the peak level for Indonesian developers, despite some recovery.
- Pressure remains for select developers grappling with weaker liquidity, amid weak conditions in Indonesia and tightening in China.
- Funding for Chinese developers is getting tougher with the cap on banks' property lending. That affects mortgage availability, for which homebuyers are relying more on.

What's changed?

Regulators in China recently announced caps on banks' property lending exposure. We expect developers' funding and cash collection and home-buying demand to be affected by varying degrees. The overall impact on rated players should be manageable since banks prefer larger and stronger players in times of tighter credit.

Key risks

More polarization in China with a restrictive funding environment. Larger developers with ample existing land banks should be less affected by the lending caps and other measures on leverage and liquidity, due to their better financial flexibility and wider funding access. But smaller players will depend more on cash generation to sustain their business and liquidity, especially challenging for those with thin land reserves.

Pressure remains for developers with weak liquidity profiles. In Indonesia, we do not expect meaningful sales recovery to take place before 2022, as recovery will hinge on the COVID-19 vaccine rollout. Two of our five rated Indonesian developers are either in distress or rated 'CCC'. However, the remaining credits have better maturity profiles, and we do not expect them to face imminent liquidity or refinancing risk.

In China, we foresee negative rating actions from increasing refinancing and liquidity risks for weaker players. Select developers with patchy cash flows and concentrated debt maturities are facing more risk, as indicated by the distressed case of China Fortune Land Development Ltd., an unrated developer.

Key assumptions

Expect flattish property sales in China, and moderate recovery in Indonesia in 2021. We believe that the solid property demand in China's larger cities is partly exhausted following 10.8% growth in 2020, while demand in lower-tier cities will likely remain volatile. In Indonesia, we expect rated developers' marketing sales to increase by 25%, which is not significant enough as that will still be well below their 2017-2019 level.

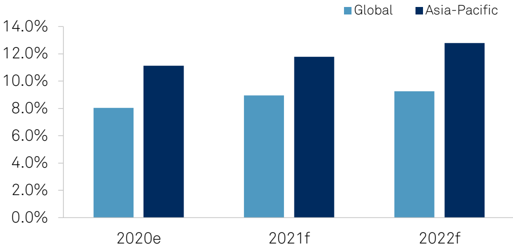
What to look for

Margin trend for Chinese developers in 2021. We believe developers may need to use steeper price promotions to drive volume. That, along with rising land costs and price caps in higher-tier cities, will likely result in sharper downside risk in margin compression, which has been sliding since 2018.

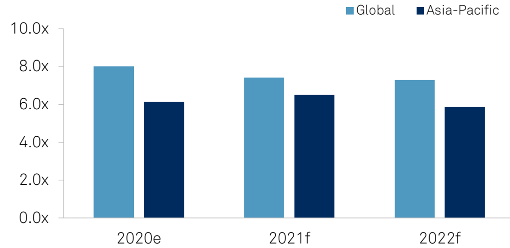
Real Estate Investment Trusts

When Structural Changes Meet Secular Changes

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



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

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Key Takeaways

- The sector's rating trend continues to be negative, with ongoing risk that some Asia-Pacific entities may fall from an investment-grade rating.
- Landlords will see lower rent levels and cash flows, but the severity will vary greatly by the type and quality of property assets.
- Weaker cash flows will drive down the valuation of some assets as the pandemic impact lingers.

What's changed?

Office demand weakens. COVID has accelerated some international firms to cut office space in Asia-Pacific. Office landlords will likely be reckoning with a structural shift in demand as more white-collar staff work from home. Retail landlords face pressure from social distancing and the boost of e-commerce. The supply and demand dynamics of individual cities, the health of their economies, and the corporate culture of tenants will determine the magnitude of this trend.

Key risks

Rental pressure could continue. We expect rents to drop for both retail and office classes amid weaker occupancy levels. We account for the risk that a prolonged pandemic could derail economic recoveries, upending demand.

Lower asset value could dampen refinancing. We haven't yet observed a significant trend in weakening refinancing across Asia-Pacific, but this could change in the longer term. In Australia, rated REITs have boosted liquidity reserves, pursued more public debt and equity issuances, and negotiated bank funding lines, encouraged by the low interest rate environment.

Key assumptions

High vacancy rates to linger. We expect occupancy to slide and rental reversions to turn south even for the strongest markets in the region. However, this could still need further adjustments if economic activity doesn't pick up as much as we expected.

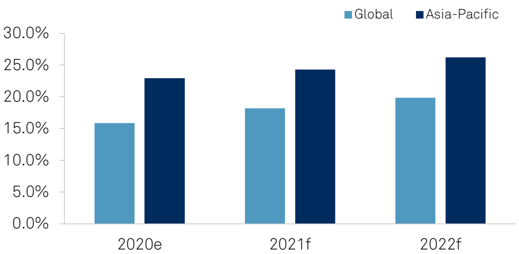
What to look for

Fixed-rent structures for retail leases may change. Landlords' bargaining power waning amid weaker retail performance. Landlords could face shorter and more flexible lease terms to hold back the rental drop.

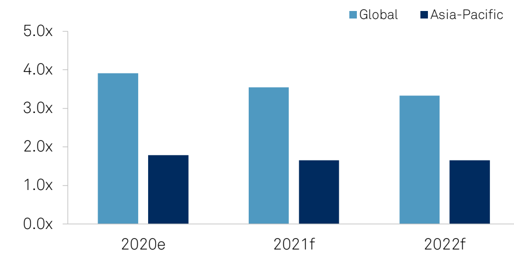
Retail

Retailers Embracing The Transition

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

Key Takeaways

– The pandemic has transformed the retail sector, accelerating the shift in consumer behavior towards e-commerce, highlighting the importance of operating omni-channel platforms.

– Maintaining creditworthiness will hinge on how quickly retailers adapt to changing consumer spending habits through appropriate demand forecasts.

– While the credit quality of our rated regional retailers remains steady compared with that of global peers, some discretionary retailers continue to be severely hit.

What's changed?

Diverging retail environment across Asia-Pacific. Consumer sentiment started to pick up in economies like China and Australia as containment efforts, coupled with optimism around the vaccine, is keeping confidence buoyant; this will underpin ongoing strength in consumer spending. Conversely, some South-east Asia countries continue to suffer from the impact of COVID-19, leaving challenging conditions for retailers.

Key risks

Further waves of COVID-19. A resurgence of infection rates in key Asia-Pacific markets would weigh on discretionary retailers. Store closures and constrained consumer sentiment are likely to restrict consumption, raising credit risks for retailers with high sensitivity to shifting tastes, consumer behavior, and reduced discretionary spending.

Shareholder-friendly policies and higher capex could cause challenges. In response to the onset of the pandemic, most issuers sought to improve liquidity coverage through a combination of new issuance, dividend suspensions, and reduction of nonessential capex. As consumers find new ways to shop, issuers reversing their liquidity cushion through shareholder friendly initiatives may limit financial flexibility.

Key assumptions

Challenging deleveraging paths. Many retailers have focused on improving liquidity coverage through additional financing measures amid the turbulent operating environment. In cases where leverage metrics are elevated, we expect a long deleveraging path amid a lumpy recovery in consumer demand.

What to look for

Higher capex requirements to enhance digital capabilities will weigh on retailers. The pandemic has transformed the retail sector with an accelerated transition to an omnichannel platform. In addition, digital capabilities will play an increasingly important role to capture evolving consumer needs in the transition period.

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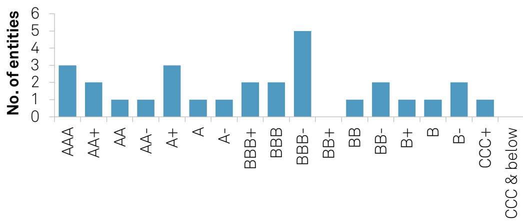
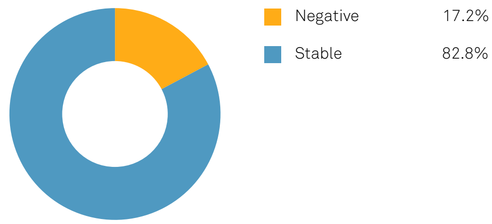
Sovereign

Risks To A Goldilocks Recovery Multiply

Rating Distribution



Outlook Distribution



Source: S&P Global Ratings. As of Mar. 31, 2021. Includes public ratings only.

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Key Takeaways

- Vaccine rollouts have increased optimism of easing sovereign pressures.
- New virus strains pose a risk of COVID-19 resurgence.
- Supply chain bottlenecks and volatile financial conditions could slow recovery of metrics.

What's changed?

Supply and logistical risks to export recovery have increased. A shortage of semiconductor chips and delays in moving shipping containers back to Asia have disrupted production and raised manufacturers' costs.

Global interest rates and commodity prices have picked up. Interest rates are picking up in some countries amid improving economic outlooks. This combined with supply shortages hitting inputs have contributed to increasing energy and non-energy commodity prices.

Vaccines roll-out underway. COVID-19 infection rates have fallen sharply in some countries as vaccination rates climb (such as Israel), giving hope that the pandemic could be brought under control.

Key risks

COVID-19 variants. If mutations outpace vaccine rollouts and infection rates rebound in the region, sovereign credit metrics could weaken significantly.

Sudden capital swings. Sharp deterioration in investor sentiment in emerging markets could see swift capital outflows. In lower-rated sovereigns dependent on imported sources of energy, higher oil prices would weaken their external balances and exacerbate capital outflows.

Dampened export recovery may weigh on growth and fiscal recovery. Rising component and commodity prices, as well as shipping costs, could hobble export recoveries. If these trends continue into the year, pressures on manufacturers may be intensified by weaker demand as government support is withdrawn, weakening economic momentum and fiscal revenue recoveries. In China, mounting economic or labor-market pressures could accelerate credit growth; financial instability risks may limit capacity to provide support.

Key assumptions

Global economic activity will recover without major volatility. Recoveries to become more entrenched as the vaccination rates in key economies rise. Gradual increase in interest rates and commodity prices to support fuller economic recovery.

What to look for

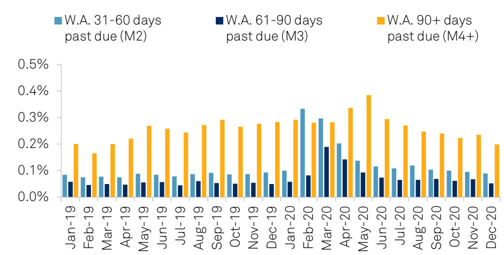
Geopolitical developments that could disrupt momentum of economic recovery. U.S.-China tensions are increasingly being played out with displays of military prowess. Meanwhile, conflict risks are increasing due to territorial disputes between China and its neighbors.

COVID-19 disruptions in 2021. Poor efficacy of vaccines against new variants of COVID-19 presents risks that could be exacerbated if speed of mutation and the variety of resistant viruses increase.

Structured Finance

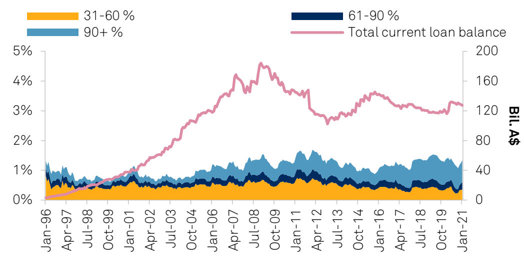
Consumer Asset Classes Remain Stable

China: W.A. Asset Delinquency Rate of Auto Loan ABS



Note: Data as of Dec. 31, 2020. The delinquency rates of the first three months after transaction close is excluded. ABS--Asset-backed securities.
Source: S&P Global Ratings.

Australia Prime SPGR Mortgage Performance Index



Data as of Jan, 31, 2021. Source: S&P Global Ratings.

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Key Takeaways

- Solid household balance sheets in Asia-Pacific continue to support the strong collateral performance of consumer asset classes (ABS and RMBS).
- New originators, low interest rates, and changing regulatory landscapes may shift risk profiles across structured finance markets.

What's changed?

Asia-Pacific is returning to the new normal. Delinquency rates in China have stabilized in auto-loan ABS and RMBS. Delinquencies remain low and relatively stable in Japan. In Australia, mortgage deferrals have declined to around a quarter of peak levels.

Key risks

Shocks to fragile consumer confidence. Virus resurgence, or the effect of weak overseas markets on exports, if prolonged, may feed through to consumer credit-backed and mortgage-backed loan performance.

Potential risks for new China auto loan ABS. Risks may emerge from idiosyncratic originators and issues, such as aggressive expansion of auto-financing to lower-tier cities or used-car segments. To boost loan origination last year, some originators promoted loan products with more flexible principal repayment terms; risks may ensue if originators securitize unseasoned loans such that they grow material to the underlying pool.

Support measures tapering in Australia. The winding-down of extraordinary income support measures and expiry of loan deferrals in March, and slowing recovery in employment, may uncover challenged borrowers.

Key assumptions

Structural supports. Ratings should be stable; low levels of speculative-grade ratings and structural supports to cushion some deterioration. Stable residential property markets and low interest rates support RMBS.

What to look for

Regulatory shift may slow issuance in China. Regulators are further tightening their grip on banks' exposure to the real estate sector. Limits on mortgage loans and how these loans backing RMBS are to be reported for regulatory purposes could slow issuance.

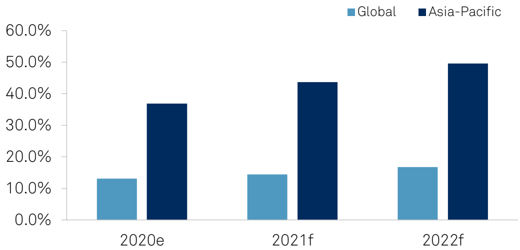
Virus resurgence in Japan. A recent resurgence of the virus and the consequent containment measures in the country may lead to another period of pressure for auto loans and mortgage-backed loans.

Housing market dynamics. Australia's property markets are experiencing growth across most cities supported by low interest rates and government incentives. Longer term supply constraints, prolonged low interest rates, and potential relaxation in consumer lending regulation may shift the RMBS' risk profiles.

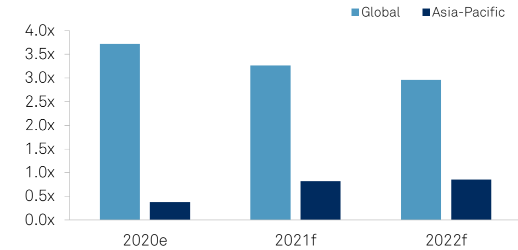
Technology

Risk Spots Remain Amid Generally Improving Business Conditions

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- Accelerating investments in 5G mobile communications and COVID-19 mitigation have supported demand, setting up a faster-than-expected recovery in 2021.
- A reversal of demand for remote working and remote learning could slow revenue and EBITDA in the second half of 2021 along with the rollout of COVID-19 vaccines.
- Faster technology shifts induced by COVID-19 could pressure companies that focus on declining products such as digital cameras and office equipment.

What's changed?

Stronger demand and faster technology shifts. The tech hardware sector could rebound faster than expected due to strong demand for IT products such as PCs and cloud servers from the rise of remote working and learning. The aggressive rollout of 5G-enabled smartphones and infrastructure supports revenues and margins in 2021. Consumer electronics demand and corporate IT spending are likely to recover. However, COVID-19 has also accelerated technology shifts and demand contraction for legacy products.

Key risks

Uncertain COVID-19 trajectory. Tech companies received a significant boost for COVID-19 mitigation amid the still raging pandemic. Surging demand has resulted in short supply in semiconductors and some key components, stimulating significant new investments in manufacturing capacity. Even so, a quick reversal of demand for COVID-19 mitigation could lead to oversupply and pressure revenues and margins unexpectedly.

Faster technology shifts. These present material risks with increased capital expenditure needs, shortened product lifecycles, and shrinking demand for legacy technology such as enterprise servers, traditional IT services, digital cameras, and office equipment. The pandemic has accelerated such risks, adding pressures on companies focusing on those legacy products and services.

Key assumptions

A stronger rebound in global IT spending. We now expect global IT spending to grow 5.8% annually in 2021 after a 1.7% drop in 2020, up from previously forecast 4%. Semiconductor demand will grow stronger at 9% in 2021, up from 5% previously. PC shipments could see strong demand sustain in the first half of 2021 and grow 8% for full year 2021. Smartphone shipments could reverse the decline in 2019-2020 and post a 5% growth in 2021 with strong sales of 5G-enabled smartphones.

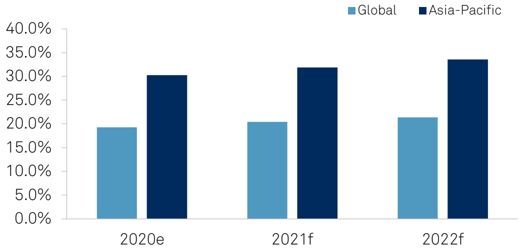
What to look for

Remaining risk spots amid generally improving business conditions. Credit risk is likely to stem from technology shifts and structural changes induced by the COVID-19 pandemic in 2021. The intensification of the U.S. blockade on the Chinese tech industry could pressure certain rated Chinese tech companies.

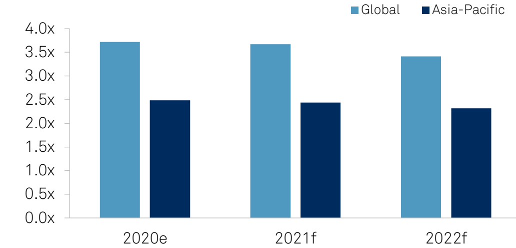
Telecommunications

Showing Resilience Amid COVID-19

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- The telecom sector's low cyclicality and utility-like demand characteristics have limited its exposure to the region's weak economic performance amid COVID-19.
- However, we see downward pressure for some operators due to stiff competition, large capital investments, and debt-funded acquisitions.
- Data traffic should expand on rising connectivity demand, but telecom operators face slack demand for roaming services and business-to-business operations.

What's changed?

Rising connectivity demand. Continued restrictions on movements in Asia-Pacific should support growth in data traffic including demand for high-speed broadband services. However, higher unemployment and lower consumer spending may weigh on some operators' roaming, pre-paid wireless, and business-to-business services.

Key risks

Deeper recession. Sluggish Asia-Pacific economies, reduced spending on telecom services, and rising bad debt may dent the region's telecom operators. We saw a modest revenue and profitability decline in 2020 but expect a recovery in 2021 and onwards.

Intense competition. Competition remains intense with deepening cuts in wireless tariff pricing or aggressive marketing in many Asia-Pacific countries such as Malaysia, Singapore, Thailand, and Philippines. The entrance of new operators in Japan (Rakuten Inc.), Singapore (TPG Telecom) and Philippines (Dito Telecommunity Corp.) will further increase wireless competition.

Key assumptions

Ongoing acquisitions. We expect continued merger and acquisition activity in the region given the telecom-media convergence trend and the appetite of some telcos to restructure their businesses. In November 2020, Japan-based Nippon Telegraph & Telephone Corp. completed a full takeover of its mobile subsidiary, NTT Docomo Inc., through a Japanese yen 4.3 trillion (about $41 billion) tender offer. This was mostly debt funded. In Korea, all three telecom players (KT Corp, SK Telecom Co. Ltd., and LG Uplus Corp.) have acquired cable TV operators to strengthen their media and pay-TV market position.

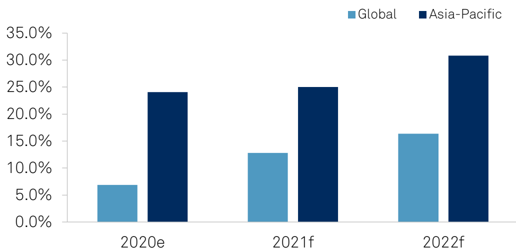
What to look for

Growing 5G services. After Korea's 5G rollout began in April 2019--followed by Australia, China and Japan--we see steady growth in 5G subscriptions. Despite potential revenue growth opportunities from higher 5G wireless tariffs, telecom operators need to manage investment burdens for 5G spectrum auctions and network expansions. Also, developing new and profitable 5G use-cases remains challenging for all operators.

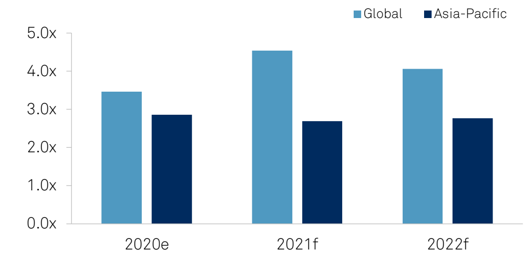
Transportation Cyclical

Divergence Continues

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- Disruptions to people flows and supply chains have severely hit transport demand. Asia-Pacific entities will track deeply divergent recovery paths in the aftermath of COVID-19.
- Airlines are the most exposed and their recovery will be gradual. Aircraft lessors can handle temporary disruptions, but a prolonged drop in air travel and the possible failures of some airlines may expose them to a significant second-order effect.
- Package express, postal services, and logistics companies are less exposed given their focus on domestic markets.

What's changed?

Deepening divergence. While the demand shock to regional transportation companies bottomed in the second quarter of 2020, the recovery follows differing paths depending on the region and the subsector. For the hard-hit airline industry, the recovery started with the air-freight market, with trade volumes rebounding. Passenger traffic in China picked up in the second half of 2020 thanks to a large domestic market and good containment of the pandemic, but dampened again in the first quarter of 2021 on tighter travel restrictions by Chinese authorities to prevent a spike in COVID cases during the Lunar New Year period.

Key risks

Liquidity crunch. Liquidity remains the key credit driver for weaker transport companies and most airlines, especially in cases where a prolonged disruption exposes firms to an extended cash crunch. Government support and relationships with creditor banks are increasingly figuring into our ratings assessments.

High uncertainty over the recovery of travel patterns. Domestic leisure travel will likely lead the industry's recovery, with business and international travel trailing behind. Even with a recovery underway, entities are finding it hard to put the pandemic's effects behind them. A big and increasing disparity among countries and subsectors could lead to a widening variation in credit trends for the transport companies in the region.

Key assumptions

Global air traffic won't return to normal until 2024. We believe that 2021 traffic by revenue passenger kilometers and revenues will still be 40%-60% lower than in 2019 (in 2020, 65%-80% down from 2019's level), and we foresee only a gradual recovery to pre-COVID-19 levels by 2024. The path to normalization will likely be uneven across countries.

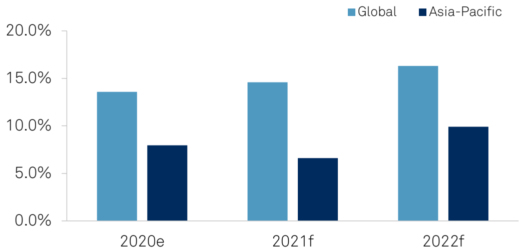
What to look for

Pace of demand recovery. Downward rating strains may increase as weak economies hit spending and consumer confidence in some countries. Recovery also depends on government guidelines for reopening travel. We may have to wait until there is a widely available vaccine (our assumption for this is by the end of third-quarter 2021) before a more complete rebound in mobility and travel is possible.

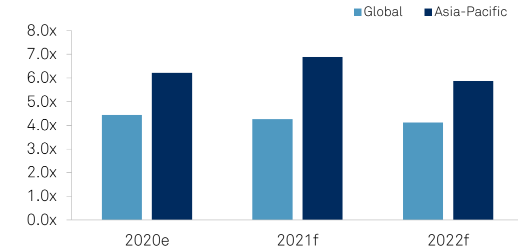
Transportation Infrastructure

Cash Flow Uncertainty Continues

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- Slower vaccination, new virus variants, international travel bans, and domestic restrictions weigh on recovery and cash flow visibility with nearly one in four ratings facing downgrade risks.
- Lower than expected airport traffic recovery means full recovery is unlikely until 2024. Toll road traffic to likely recover in 2021 based on experie4nce in China.
- Some flexibility in capex and improved funding access remain the key support for the sector.

What's changed?

COVID risks change with focus on vaccination. Slow pace of vaccinations, new virus variants, continuing international travel restrictions dampen the sector's outlook. New waves of infection cases and reintroduction of restrictions create further uncertainties. Rising economic and social activities following government stimulus and lifting of domestic travel restrictions may provide some respite to the battered sector.

Key risks

Elevated macro and geopolitical risks. Uncertainty about the timing of widespread vaccination (particularly for emerging markets), concerns about strategic confrontation between U.S. and China and increasing policy risks weigh on the sector's outlook.

Weaker support. The ability of government or parent support is weakening as the pandemic continues. Local and regional governments' fiscal collections have suffered. Limited fiscal space for sovereigns and lower willingness to provide support also overhang on ratings on government-backed infrastructure developers.

Key assumptions

Lasting damage. The sector will see lasting scars due to COVID-19 induced mobility restrictions and incurrence of higher debts. Delay in normalization of economies and lifting of movement restrictions could result more downside rating pressure.

Some flexibility in capital expenditure. Capital spending is on an upward trajectory given significant infrastructure deficits and recovery stimulus. However, some expenditure deferrals or adjustments may occur given stressed corporate finances and erosion of structural demand.

What to look for

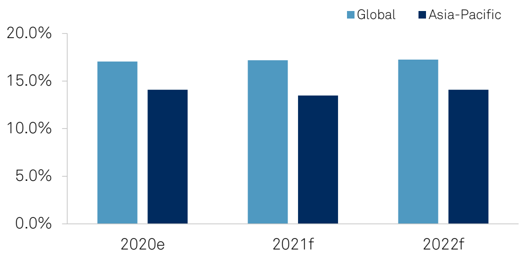
Caution in lifting international restrictions. International travel restrictions remain tight given slow vaccination rollout. However, a recent travel bubble between Australia and New Zealand shows some signs of normalization when the caseload is manageable.

Funding and liquidity conditions. Capital markets flush with liquidity, government and central banks' support measures have improved funding conditions for issuers, except in China. Credit differentiation continues.

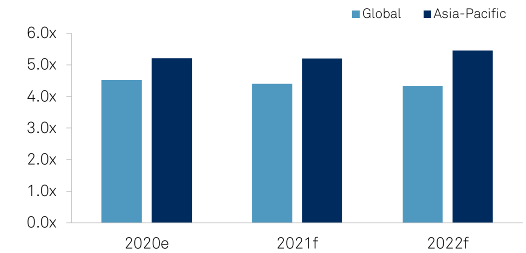
Utilities

Growth Investment Set to Gain Momentum

FFO/Debt (Median, Adjusted)



Debt/EBITDA (Median, Adjusted)



Source: S&P Global Ratings. All figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. e--Estimated. f--Forecast.

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Key Takeaways

- Strong signs for return of growth-related investments in India, China, and other Asian markets as economic growth picks up.
- Renewables will be the mainstay for new investments; most Asian markets will see some level of long-term network investments.
- Small negative bias remains for the sector given relatively high leverage, return of growth-related investments and risk to earnings for fossil fuel generators.

What's changed?

COVID risks receding and renewable growth to gather pace. Energy demand in most Asian markets should return to pre-COVID levels by mid-2021 or earlier spurred by rebound in economic and industrial growth, and impetus for infrastructure development by governments. Acceleration of clean energy targets means the spotlight remains firmly on renewable development, which will likely to boost market reforms.

Key risks

Unwinding of economic support and COVID resurgence. Winding-down of government economic support to SMEs/industries or a return of secondary infections can limit demand growth and impede deleveraging. Rise in bad debts may further limit an issuer's access to funding.

Pace of new investments and funding. Excessive debt funding of new developments (due to low interest rates), adverse regulatory reforms and long-term supply gaps and grid constraints are clear risks. The need to balance tariffs post-COVID versus issuers' needs to earn appropriate returns on investment, may test regulatory frameworks.

Key assumptions

Profitability to improve as demand returns. Demand recovery and tariff changes to pass-through fuel costs. Lower open-market power prices and retail price controls for independent power producers to continue. In China, weather linked rising fuel costs in winter may contain the profit expansion of power producers and city gas distributors.

Capital expenditure growth to resume. Slow ramp-up in capex profile predominantly in the renewable space. Cautious funding approach in line with approved parameters assumed with regulators or bilateral contracts.

What to look for

Liquidity to support working capital shifting to investment. Chinese state-owned power producers should continue large capital expenditure to expand renewables; Indian operators' leverage and cash flows will largely be dependent on receivable collections. While rating headroom remains, aggressive growth can bring risks.

Appendix 1

Related Research

- Credit Conditions Asia-Pacific Q2 2021: Uneven Recovery, Mar. 30, 2021
- Economic Outlook Asia-Pacific Q2 2021: Three-Speed Recovery Will Benefit From Faster Global Growth, Mar. 25, 2021
- COVID-19- And Oil Price-Related Public Rating Actions On Corporations, Sovereigns, International Public Finance, And Project Finance To Date, Feb. 24, 2021
- COVID-19 Heat Map: Some Bright Spots In Recovery Amid Signs Of Stability, Feb. 18, 2021

Appendix 2

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