

Transportation Infrastructure

Growth normalizes, inflation lingers, and interest rates stay high

This report does not constitute a rating action.

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What do we expect over the next 12 months?

Growth of passenger traffic will further decelerate from the first quarter of 2024 (mainly due to a low base in the first quarter of 2023). Freight demand growth will stay resilient underpinned by capacity additions.

Capital expenditure (capex) will be increasingly demand-oriented. We see tapering capex appetite and a prioritization of key projects under central oversight in China, due to a pressing need for debt resolution.

Our overall rating bias is largely balanced. A few negative outlooks are due to weakening external support amid heightened debt burden, positive outlooks reflect likely cash flow improvement by higher tariffs.

What are the key risks around the baseline?

Global trade tensions and supply chain risks. This is despite the region's export resilience seen so far. The sustainability of traffic/volume growth hinges on demand from buying countries. Continued shipping disruptions in the Red Sea imply supply chain uncertainties.

Inflation continues to affect some markets. Inflation is easing but may not come down as much, or as quickly, as we had expected, and will remain uneven across the region. This may constrain trade demand and travel needs.

High interest rates in some markets may pressure borrowers. This is particularly true for issuers more reliant on dollar funding, those with lower interest rate hedging, or those with large refinancing or capex needs.

What do they mean for the sector?

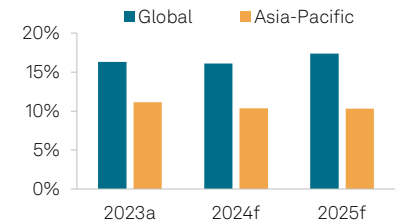
Demand growth could be lower than expected. Tariff hikes by the U.S. on electric vehicles, semiconductors and batteries from China, if followed suit by the EU and other regions, could hurt demand from exports. Supply chain disruptions may affect operating efficiency.

Still, domestic funding costs are helping issuers across parts of the region. Indian issuers experience continued access to cheaper costs from domestic banks and the onshore bond market. Chinese issuers also have access to favorable funding costs. Some countries' issuers are benefiting from inflation-linked tariff/toll increases.

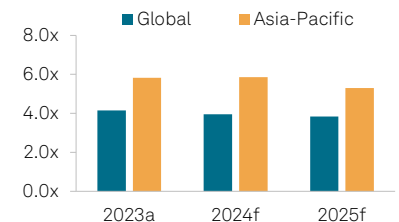
Leverage will stay elevated, higher than the global level. This is mainly due to continued large capex to improve efficiency or to meet demand growth.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.