Retail

Sandy Lim, CFA
Hong Kong
+852-2533-3544
sandy.lim@spglobal.com

Revenue growth to slow amid weak spending

This report does not constitute a rating action.

What do we expect over the next 12 months?

Topline stays weak with low consumer confidence. China retail is seeing a small boost from policy support, while Australian grocers enter a period of heightened political scrutiny over grocery pricing.

EBITDA margins to broadly weaken across our coverage. Companies generally need to spend more on promotion to stimulate demand. Cost pressures are elevated in the Pacific region.

Credit ratios for China and Japan should improve, but Pacific companies will see relatively weaker metrics.

What are the key risks around the baseline?

Cautious spending continues. Consumers are cautious with shrinking real disposal income (in Japan and Pacific) or low confidence (in China). Spending is disciplined and biased toward downtrading and necessities. We expect growth to slow but remain positive.

Regional drivers diverge. In Australia, allegations of price gouging could potentially lead to a shift in market share among supermarket operators. In China, the government is deploying subsidies to encourage upgrades to new, energy-efficient products driving sales of larger-ticket items. In Japan, a weaker yen lifts tourists' inflow but not enough to offset softening trends domestically.

Diminishing returns. Pacific issuers experience most margin pressures as cost inflation persists. Japan issuers are relatively shielded from slowing domestic consumption given most of their earnings comes from overseas, and this level is growing.

What do they mean for the sector?

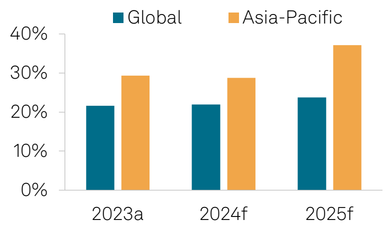
Low confidence. It would take time to rebuild consumer confidence. COVID savings have largely been used up in Japan and the Pacific, while the recent wage hikes could slow the pace of real wage declines.

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

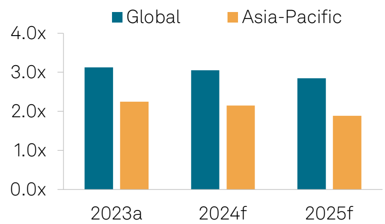
Credit metrics to diverge. A growing EBITDA base in China and Japan along with measured spendings should support cash flows and low leverage ratio trends. Weaker EBITDA generation in the Pacific would weaken credit metrics such as leverage and discounted cash flows.

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.