S&P Global Ratings

Media And Entertainment

Tepid growth outlook for 2024

This report does not constitute a rating action.

Clifford Kurz, CFA
Hong Kong
+852-2533-3534
clifford.kurz@spglobal.com

What do we expect over the next 12 months?

China advertising spending growth to remain stable in 2024, following a recovery in 2023.

Intense competition, particularly in e-commerce, will somewhat offset the effects of stable economic growth in Asia-Pacific. This could erode margins for some issuers.

Large internet companies have plenty of financial buffer to withstand slowing growth and investments to remain competitive.

What are the key risks around the baseline?

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

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

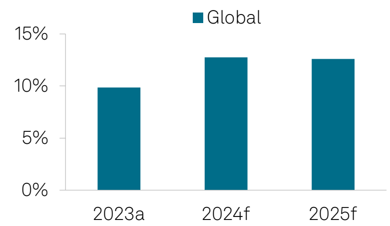
What do they mean for the sector?

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

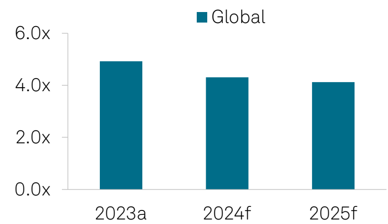
Most Asia-Pacific media and entertainment companies have sufficient financial buffers. Most of our rated media and entertainment issuers in Asia-Pacific have dominant market positions and large financial buffers to absorb rising investments, margin pressure, and rising regulatory costs.

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. *Metrics for Asian issuers are not included in the chart, as more than half of the Asia-Pacific media & entertainment rated portfolio are net cash on an adjusted basis. FFO--Funds from operations. a--Actual. f--Forecast.