



New Zealand Corporate Landscape

Navigating A Sluggish Economic Recovery

S&P Global
Ratings

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This report does not constitute a rating action

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Key Takeaways

Key Themes:

- New Zealand corporates face anemic economic conditions. Recent high inflation and interest rates are stifling consumer confidence.
- Corporates face cost pressure and a squeeze on operating margins as consumers seek cheaper products.
- Aggressive cost-cutting programs may contribute to rising unemployment.
- Downcast consumers may see some respite as inflation eases and the interest-rate cutting cycle begins.
- A weaker Chinese economy dampens the outlook for New Zealand's key exporters.

Rating Outlook:

- Our rated corporate issuer outlooks are predominantly stable, despite tough operating conditions.
- Issuers with solid liquidity and sufficient capacity in credit metrics are positioned to endure low growth.
- Cash flow-preservation initiatives will provide credit metric support to consumer-facing issuers.

Sector Outlooks

Consumer-Facing Corporates:

- Discretionary spending remains soft as consumers grapple with high interest rates, cost-of-living pressures (albeit easing), and rising unemployment.
- Recent interest rate and tax cuts may help alleviate some of these pressures in fiscal 2025 (year ending June 30).

Dairy:

- Economic headwinds, low birth rates, and elevated domestic supply are curbing the growth of China's dairy market.
- China is an important market for Fonterra Co-operative Group Limited, accounting for about 36% of group earnings.

Commercial Property

- General upward vacancy trend in 2024 due to softer economic backdrop and forecast increase in supply.
- Vacancies should stabilize in 2025, although a more competitive industrial leasing market may slow rental growth.

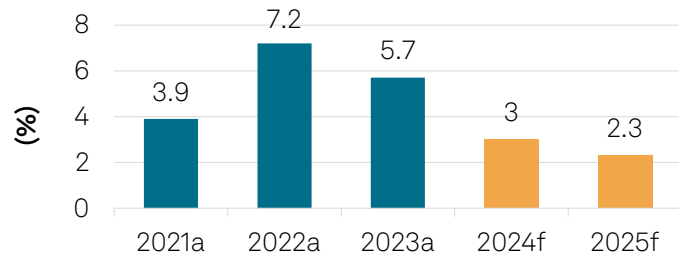
Telcos:

- We expect moderate earnings growth as demand for data remains solid.
- Increased importance of mobile business given structural headwinds in the enterprise (government and corporate) market.

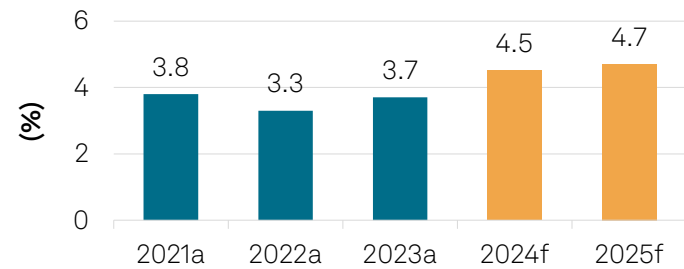
Challenging Operating Conditions For New Zealand Corporates

New Zealand macro settings

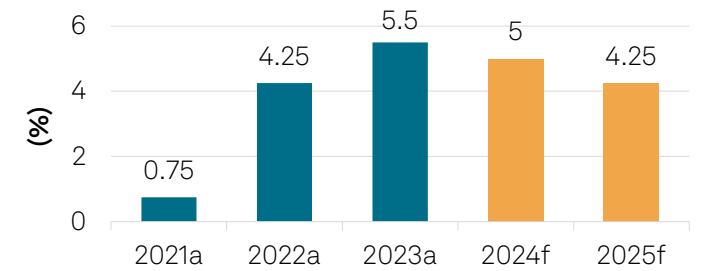
CPI



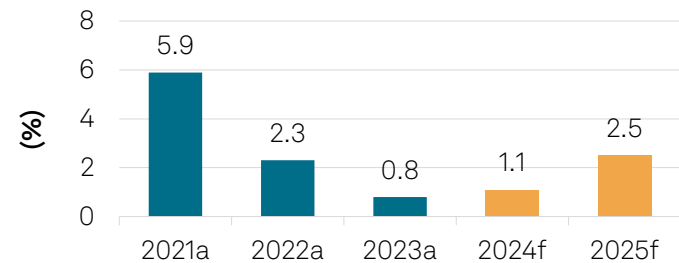
Unemployment rate



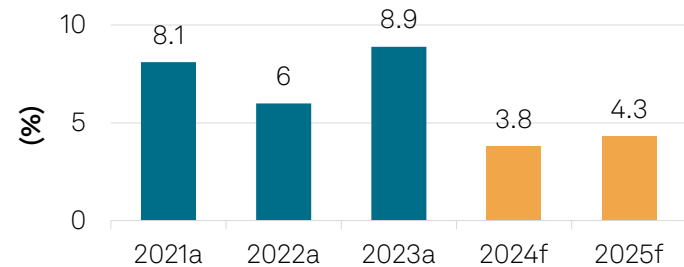
Cash rate



Real GDP



Nominal GDP

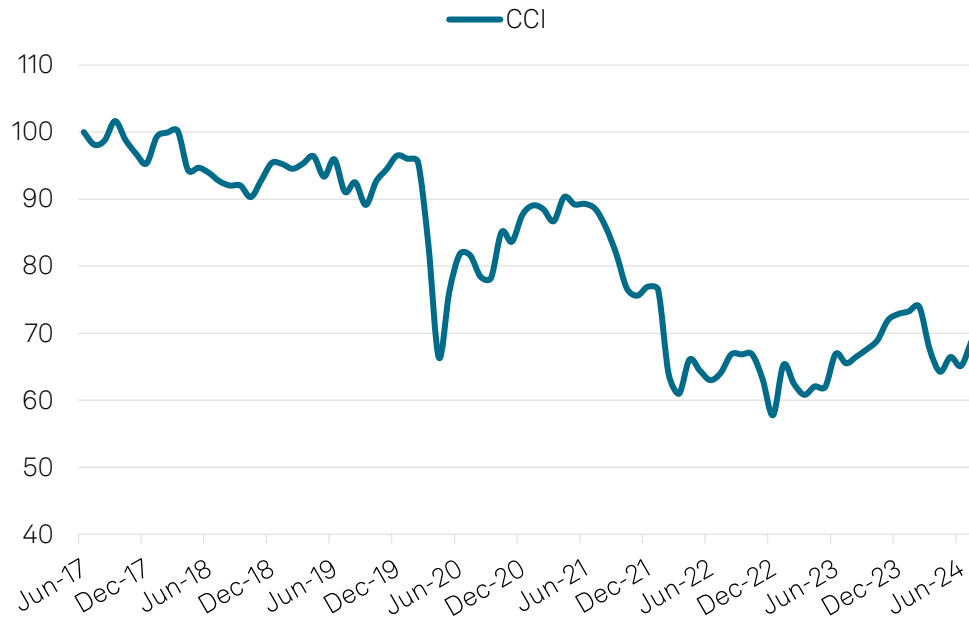


Source: S&P Global Ratings.

Consumer: Curtailed Spending To Test Consumer Facing Corporates

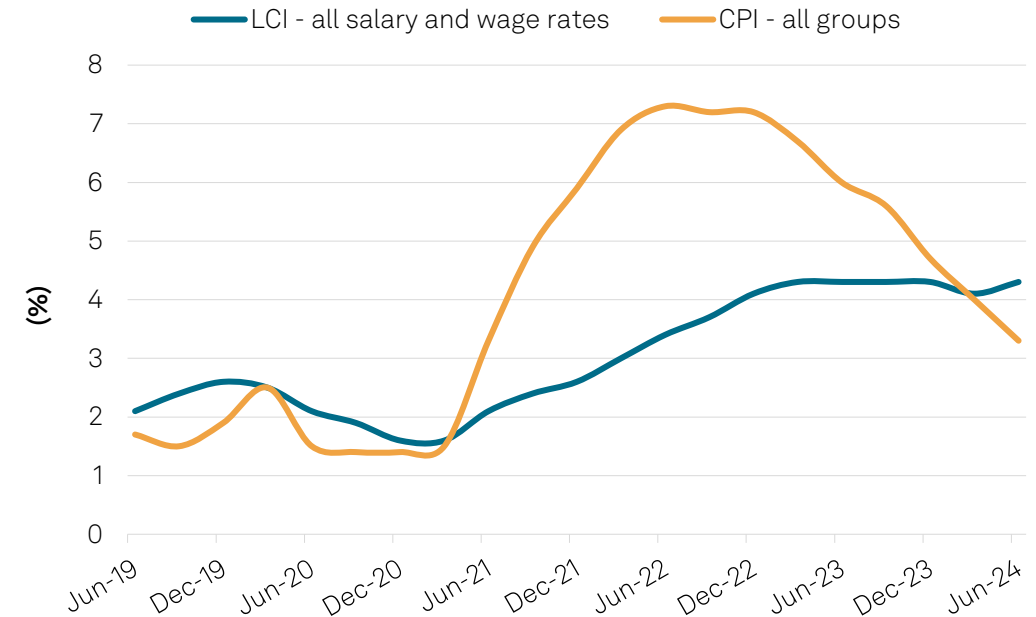
- Inflation has largely outpaced wage growth in recent years, eroding consumers' discretionary incomes and sentiment.
- Households will continue to seek cheaper products, and curb discretionary spending, pressuring sales volumes and margins.

Consumer confidence remains subdued



Note: Data rebased to June 2017. CCI--consumer confidence index. Sources: ANZ-Roy Morgan NZ Consumer Index, S&P Global Ratings.

Real income growth could provide relief

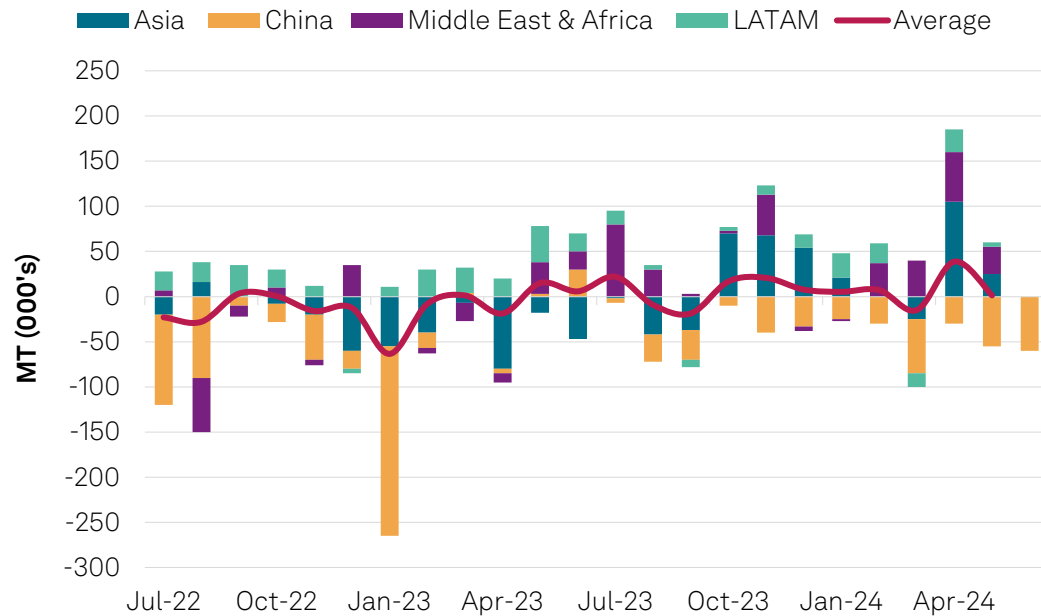


LCI--labor cost index, CPI—consumer price index. Sources: NZ Stats, S&P Global Ratings.

Dairy: Chinese Demand For New Zealand Dairy Remains Subdued

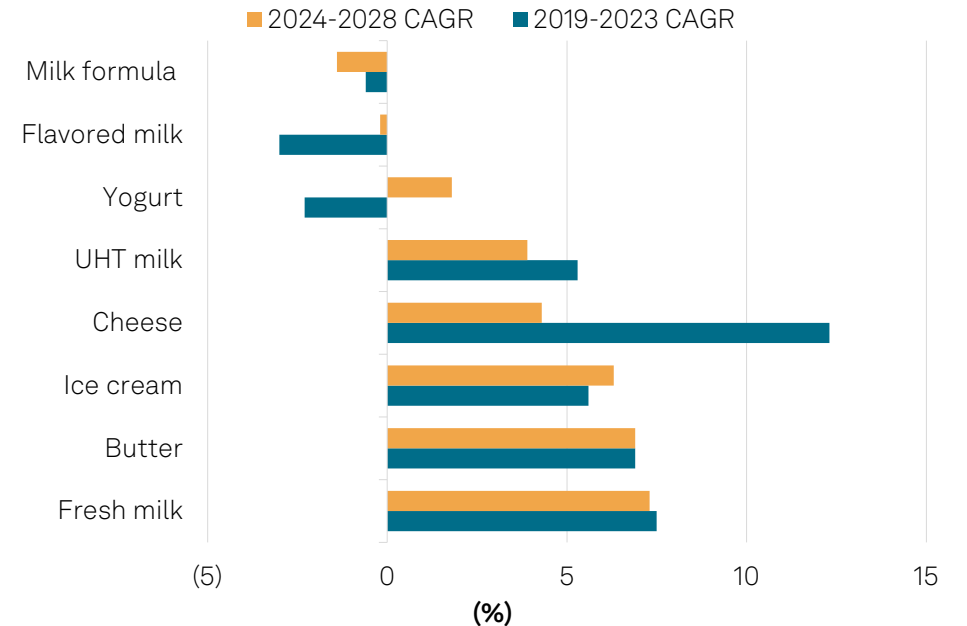
- Import volumes from China have declined materially due to elevated domestic supply.
- Local producers will direct more milk to higher-value products to boost growth and protect margins as demand plateaus.

Global dairy imports: year-on-year changes



MT--Metric tonnes. Sources: Fonterra Co-operative Group Ltd. S&P Global Ratings.

Fresh milk, butter, and ice cream to lead dairy growth in China

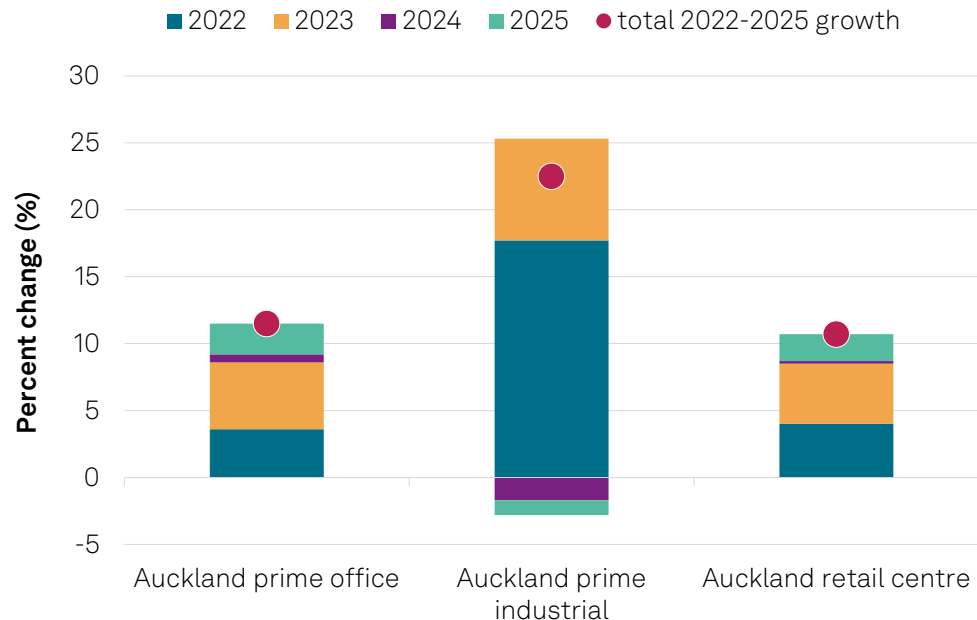


UHT--Ultra-high temperature. CAGR--Compound annual growth rate. Sources: Euromonitor and S&P Global Ratings.

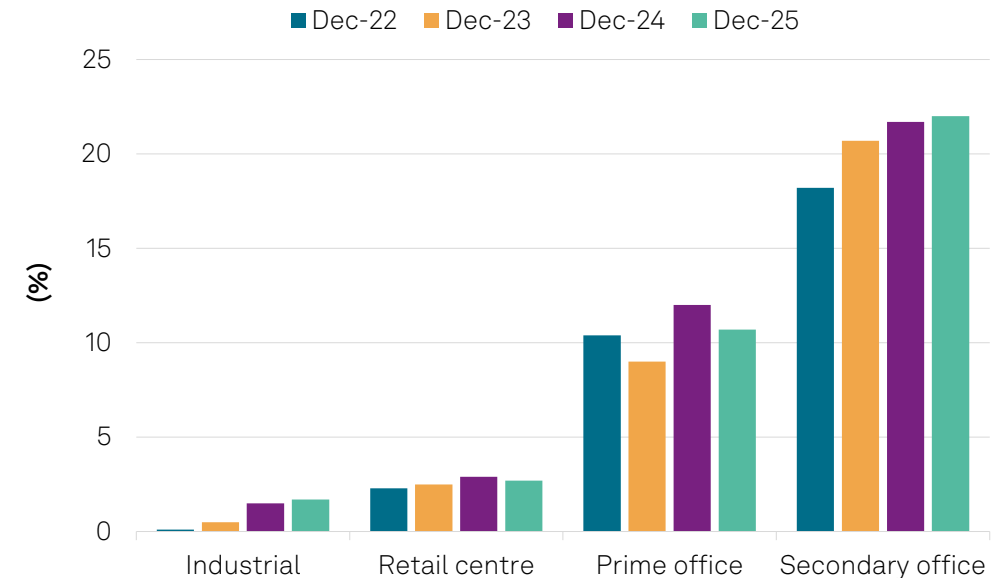
Real Estate: Industrial Assets Still Lead The Way

- Retail assets' steady rent growth from limited supply, CPI-linked rent review structures, and resilient sales turnover growth.
- Prime office will continue modest net effective rent growth.

Automation features may benefit warehouse renewals



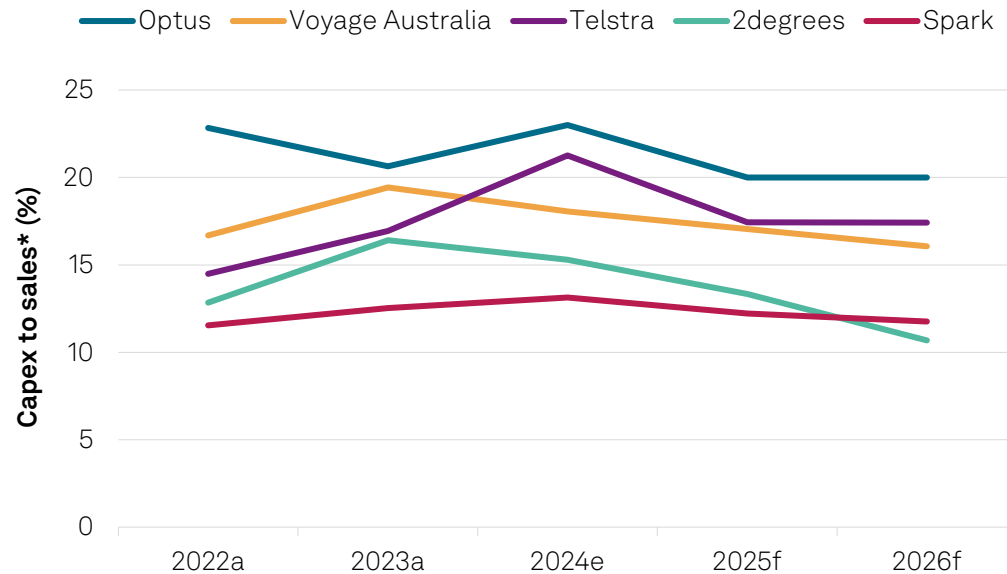
Flight to quality drives higher secondary office vacancies



Telcos: Demand For Connectivity Supports Industry Resilience

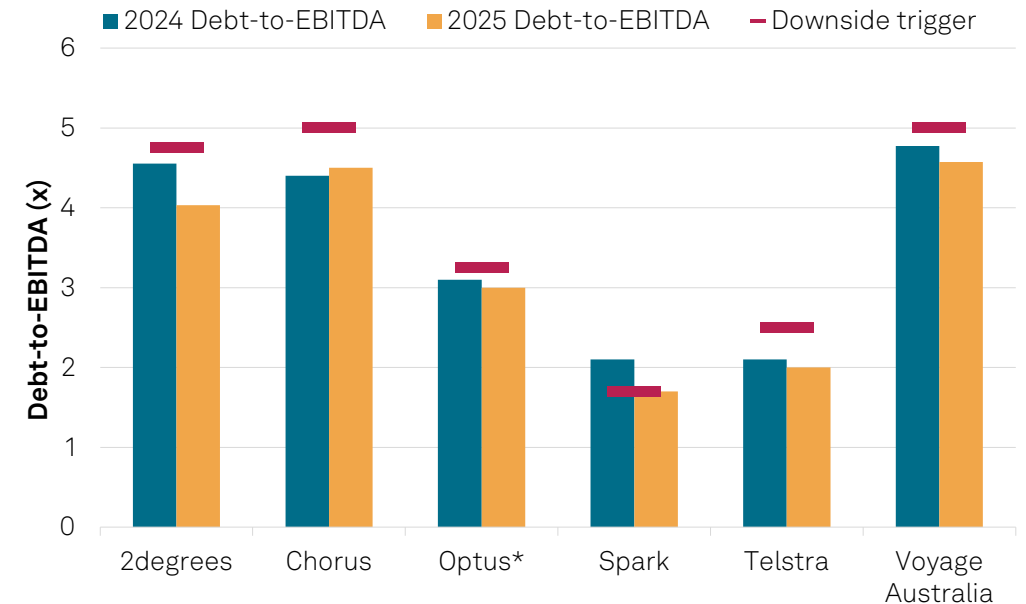
- Modest near-term growth prospects. Pressure on telcos to lift returns on invested capital.
- Mobile a key driver for earnings growth and cash flow generation; outlook for the enterprise market remains weak.

Elevated capex continues to weigh on free cash flows



*Capex including spectrum payments. Source: S&P Global Ratings.

Healthy financial headroom for most



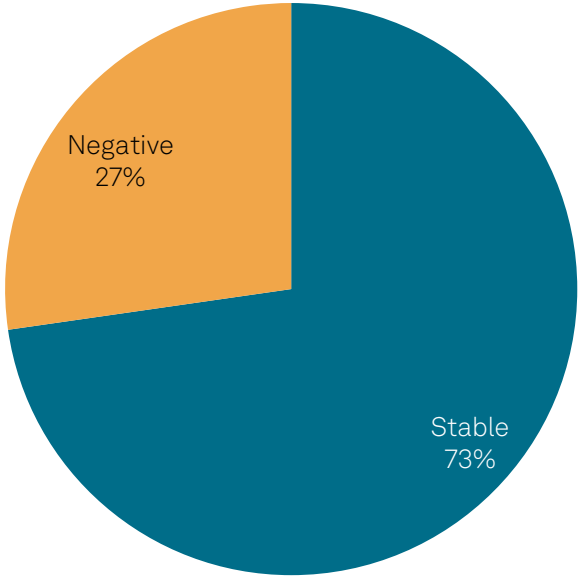
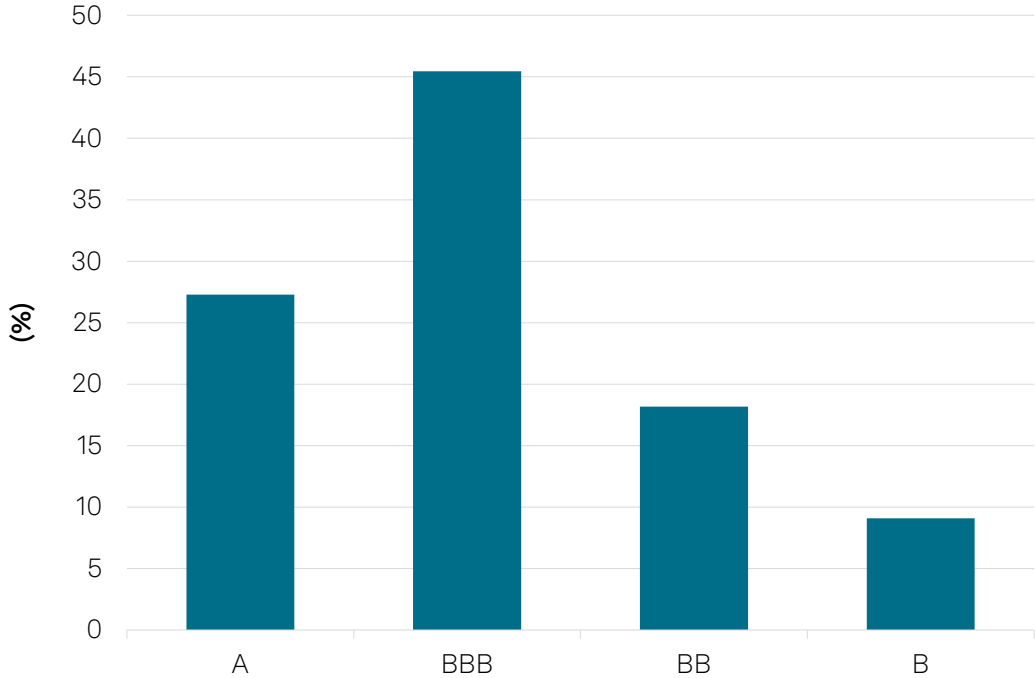
*The downside trigger relates to Optus stand-alone credit profile (SACP). The rating on Optus reflects that on the company's sole owner, Singapore Telecommunications Ltd. Source: S&P Global Ratings.

Appendix

Appendix: Rating Distribution – New Zealand Corporate

Weighted to investment grade ratings

Outlooks predominantly stable despite tough conditions



Note: data as of August 31, 2024. Source: S&P Global Ratings.

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Related Research

New Zealand Corporate Publications:

- [Spark New Zealand Capital Management Key To Ratings Stability](#), Aug. 22, 2024
- [2degrees Group Ltd. 'BB-' Rating Affirmed Following Corporate Restructure; Outlook Stable](#), July 30, 2024
- [SKYCITY Entertainment Group 'BBB-' Rating Affirmed; Outlook Remains Stable](#), June 28, 2024
- [Fonterra Can Accommodate Consumer Products Exit](#), May. 19, 2024

Pacific Publications:

- [Australia and New Zealand Corporate Rating List](#), July 29, 2024
- [Asia-Pacific Towercos: More Construction, Colocation and Consolidation Ahead](#), May 9, 2024

Macroeconomic Research:

- [Credit Conditions Asia Pacific Q3 2024: A Trade Showdown Unfolds](#), June 25, 2024

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