

Asia-Pacific Credit Outlook 2025

Cutting Through The Noise

November 13, 2024

Head of credit research, Asia-Pacific

Eunice Tan | Singapore
eunice.tan@spglobal.com

Research contributor

Christine Ip | Hong Kong
christine.ip@spglobal.com

Sushant Desai | Mumbai
sushant.desai@spglobal.com

This report does not constitute a rating action.



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Asia-Pacific Credit Outlook

Head of Credit Research, Asia-Pacific

Eunice Tan | Singapore

eunice.tan@spglobal.com

Asia-Pacific Outlook 2025 | Cutting Through The Noise

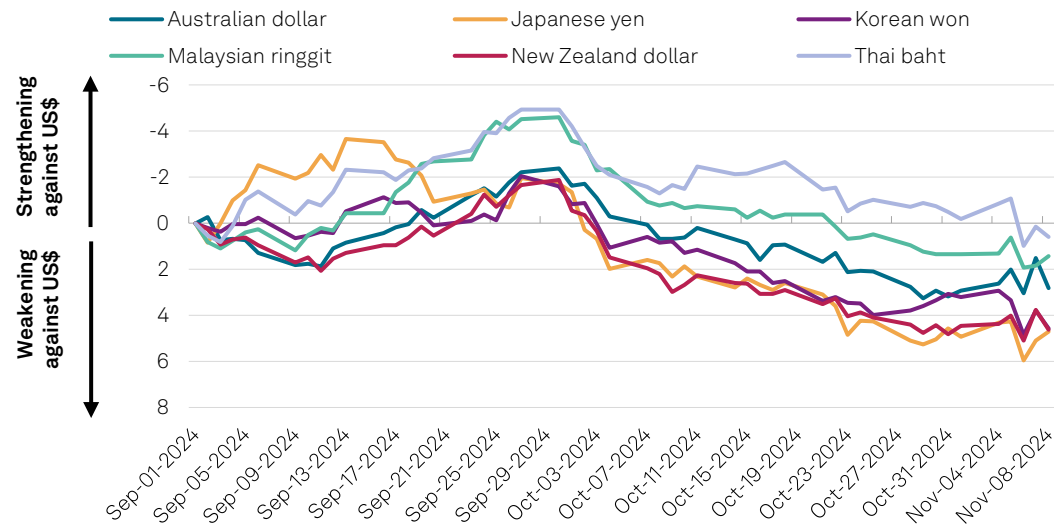
- **A noisy backdrop.** U.S. President-elect Donald Trump's historic win will color Asia-Pacific's credit landscape. While still unknown, prospective trade and foreign policy could renew tensions between the U.S. and China, and that may hit trade-oriented Asia-Pacific. The region's issuers will be tested as they navigate more policy and market volatility through 2025.
- **More complications.** Higher trade tariffs on China's imports to the U.S. will hit China's export growth and exacerbate deflationary pressures. Although authorities' recent measures have provided some relief for property sales and prices, a large glut remains in lower-tier cities. Pressure on downstream sectors, such as building materials, construction and metals, remains tight. Meanwhile, contained stimulus by Chinese authorities underlines discipline.
- **Uncertainty abound.** Trade and immigration policies by the upcoming U.S. administration could undo disinflationary momentum in the U.S. Should the Fed slow the pace of monetary easing, Asia-Pacific's central banks could follow suit amid concerns on capital outflows. All-in financing costs may stay elevated, hitting credit headroom. Furthermore, weaker home currencies could tilt borrowers back to onshore funding channels.
- **Deteriorating net outlook bias.** Entering 2025, the net rating outlook bias for Asia-Pacific issuers slipped to negative 3% as of end-October (August 2024: negative 2%). The chemicals, real estate, building materials and retail sectors have the largest negative outlook percentages. With the credit landscape remaining nuanced, a wedge between winners and losers is widening. Volatility is set to rise amid compounding headwinds from geopolitical tensions and financing challenges.

Asia-Pacific Outlook 2025 | Bracing For Volatility

- **Turning tides.** With the Fed's monetary easing likely to slow, swings in capital flows are reintroducing weakness in domestic currencies. This is a double-edged sword; it hurts importers and pushes up offshore borrowing costs but benefits exporters.
- **Biting costs.** Worsening geopolitical conflicts and diplomatic frictions can disrupt supply chains and push energy prices up, hitting trade-centric and net-energy importing Asia-Pacific. Margins could narrow for producers with weaker cost pass-through ability.

After a brief respite, Asia-Pacific currencies slide again

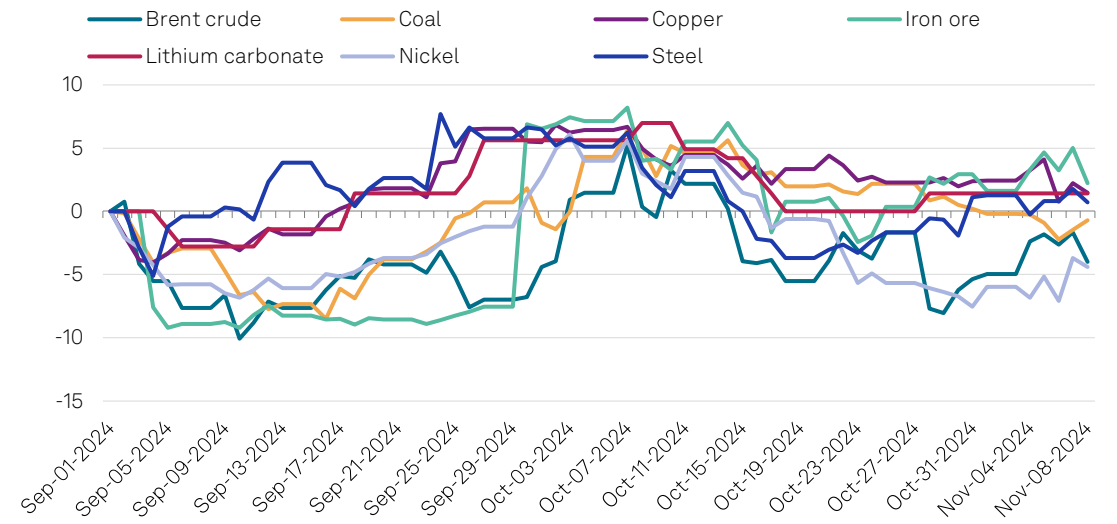
Percentage change since Sept. 1, 2024 (%)



Data as of Nov. 8, 2024. Source: S&P Global Market Intelligence.

Energy and commodity prices are rocked by volatility

Percentage change since Sept. 1, 2024 (%)



Data as of Nov. 8, 2024. Source: S&P Global Market Intelligence.

Asia-Pacific Outlook 2025 | Snapshot



Deteriorating to

-3%

Net ratings outlook bias
as of Oct. 2024 (Aug. 2024: -2%)



Lowered to

4.6%

China's 2024 GDP forecast
(2025 GDP forecast: 4.3%)



Lowered to

4.2%

**Asia-Pacific ex-China
2024 GDP forecast**
(2025 GDP forecast: 4.4%)



Deteriorating to

-5%

Corporate net ratings outlook bias
as of Oct. 2024 (Aug. 2024: -4%)



Improving to

0%

**Financial institutions
net ratings outlook bias**
as of Oct. 2024 (Aug. 2024: -1%)



Improving to

14%

Sovereign net ratings outlook bias
as of Oct. 2024 (Aug. 2024: 11%)

Economic forecasts are as
of September 2024.

Source: S&P Global Ratings.

Credit Conditions Asia-Pacific | Top Risks

Top Asia-Pacific risks

- **China's economy:** Deepening property crisis, weak confidence, high debt levels, and trade tensions to slow growth.
- **Financing:** Intensifying market volatility could dampen financing access as central banks embark on monetary easing.
- **Global economy:** Risk of hard landing in major economies to weigh down business and global trade.
- **High costs:** Trade tariffs could prompt businesses to review supply chains, exacerbating relocation and economic costs.
- **Japan's monetary policy:** Abrupt capital inflows and risk repricing of assets and derivatives cause market volatility.
- **Real estate:** Negative equity and shrinking demand to exacerbate property devaluation and liquidity strains on developers.

Structural risks

- **Geopolitics:** Escalating geopolitical tensions could hinder policy predictability and increase financial market volatility.
- **Climate change:** Extreme weather and energy transition to pose business challenges and raise costs.
- **Technology:** Accelerating technological advancement and mounting cyber-attacks to disrupt business operations.

Based on our "Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates" report, published Sept. 25, 2024. Source: S&P Global Ratings.

Net Outlook Bias Of Asia-Pacific Issuers By Sector

As of Oct. 31, 2024.

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. OEM--Original equipment manufacturer. Teal colored cells indicate improvement from prior period, red, deterioration.

Source: S&P Global Ratings.

	Oct. 2023	Feb. 2024	May 2024	Aug. 2024	Oct. 2024	No. of entities	Notional average rating
Auto OEM and suppliers	-3%	7%	0%	-3%	-7%	30	BBB
Building materials	-19%	-20%	-6%	-17%	-18%	17	BB+
Business services	-17%	-22%	11%	11%	0%	9	BBB-
Capital goods	-9%	-3%	-3%	0%	-3%	33	BBB
Chemicals	0%	-17%	-28%	-31%	-39%	28	BBB
Consumer products	-4%	-8%	-8%	-4%	-4%	26	BBB
Diversified	11%	11%	6%	0%	0%	17	A-
Healthcare	17%	0%	0%	20%	20%	5	BBB
Hotels, gaming, and leisure	-6%	18%	18%	25%	19%	16	BB+
Investment company	0%	0%	0%	0%	0%	6	A
Media and entertainment	-9%	0%	0%	0%	0%	10	BBB+
Metals and mining	0%	2%	2%	2%	0%	46	BBB-
Oil and gas	9%	5%	4%	9%	0%	23	BBB+
Real estate development	-11%	-12%	-23%	-16%	-20%	25	BBB-
Real estate investment trusts	-19%	-12%	-8%	-10%	-10%	49	BBB+
Retail	13%	0%	0%	-6%	-19%	16	BBB+
Technology	-12%	-4%	-7%	-4%	-4%	45	BBB
Telecommunications	3%	-3%	-6%	-16%	-12%	33	BBB
Transportation cyclical	-11%	-10%	-10%	-21%	-12%	17	BBB
Transportation infrastructure	-2%	0%	0%	4%	4%	46	A-
Utilities	-1%	2%	3%	2%	3%	98	A-
Total corporates	-4%	-3%	-3%	-4%	-5%	595	BBB
Financial institutions	8%	8%	0%	-1%	0%	387	BBB+
Insurance	-1%	6%	9%	10%	11%	173	A
Public finance	-13%	-31%	-31%	-30%	-33%	79	AA-
Sovereign	-3%	-3%	7%	11%	14%	28	BBB+
Total issuers	-1%	0%	-2%	-2%	-3%	1,262	BBB+

Asia-Pacific Macroeconomic Outlook

Asia-Pacific Chief Economist

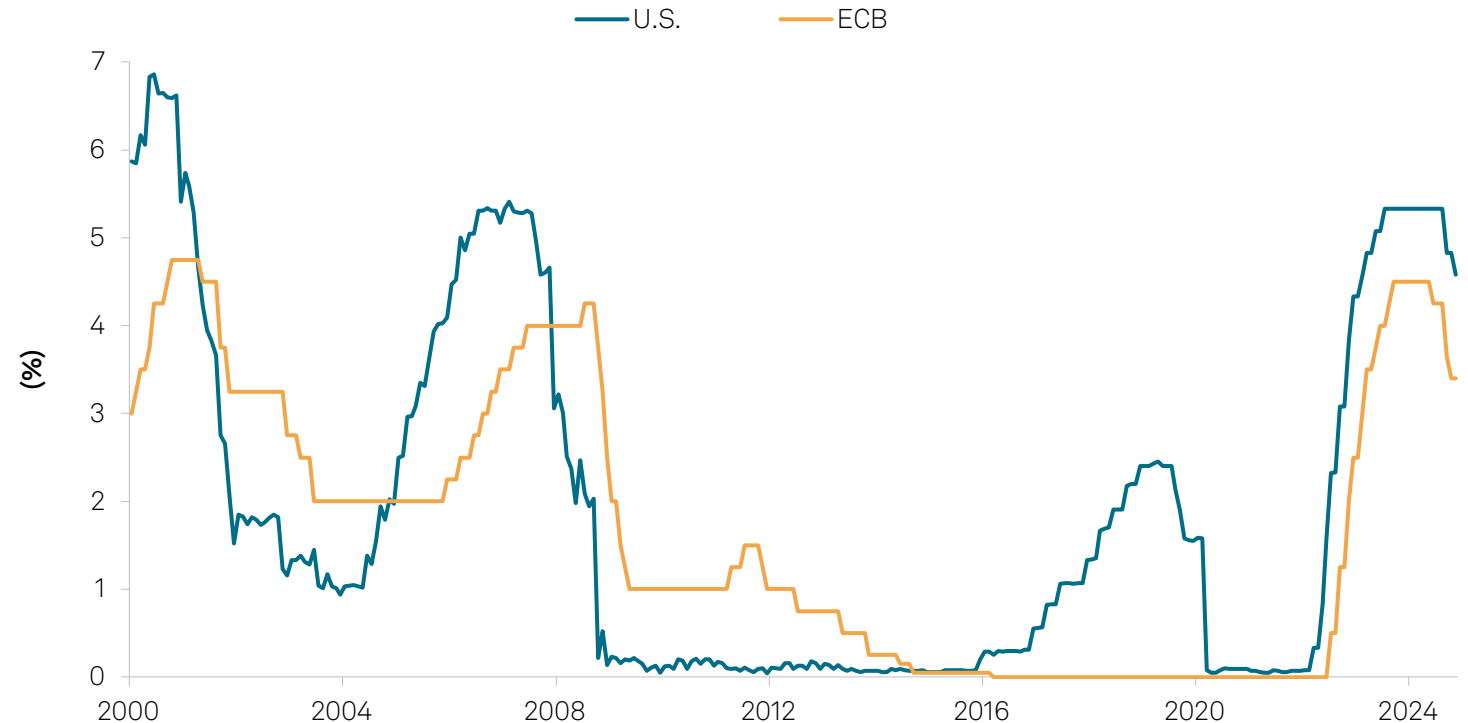
Louis Kuijs | Hong Kong

louis.kuijs@spglobal.com

U.S. & Europe | Trump administration's policies to affect the U.S. and the world

- Domestically, key areas are immigration, taxation and (de)regulation.
- Higher inflation and higher government deficits would affect U.S. monetary policy and bond markets.
- Externally, risks of higher trade tariffs on Chinese exports are high. There are also risks of higher tariffs on other economies' exports, including Asian ones.
- The political changes in the U.S. imply a particularly high degree of uncertainty.

DM central banks have started cutting rates

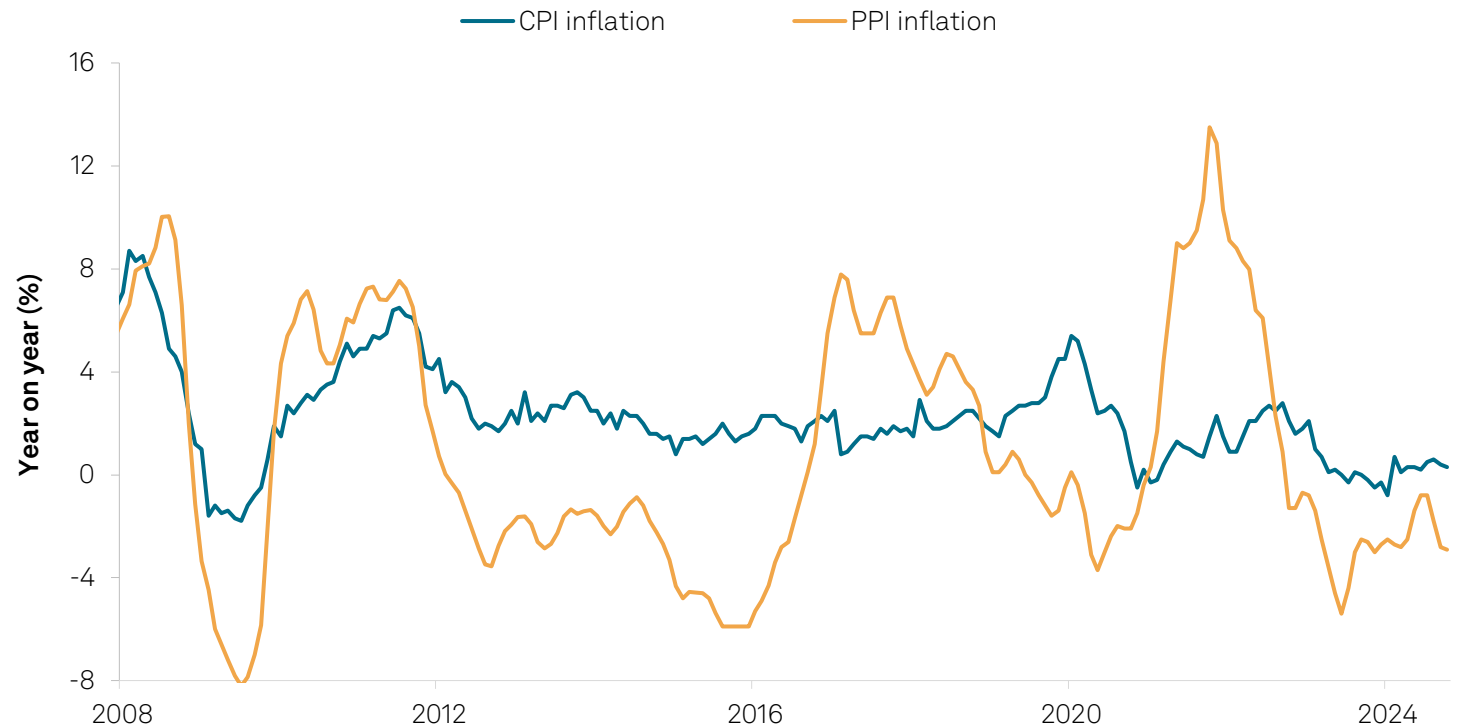


The forecasts are from September 2024. They will change in November. Sources: CEIC, S&P Global Ratings.

China | The outlook is shaped by policy stimulus and U.S. trade policy

- Since end-September, policymakers have announced several monetary, fiscal and other measures to support the property market, address local government debt problems, and buoy growth.
- These measures should have some positive impact on the economy.
- China would be hit by new U.S. trade tariff increases on imports from China.
- Our November baseline forecast will reflect the policy changes that we deem very likely to be made, with a discussion of key risks around the baseline.
- Risks have increased.

Downward price pressure remains strong

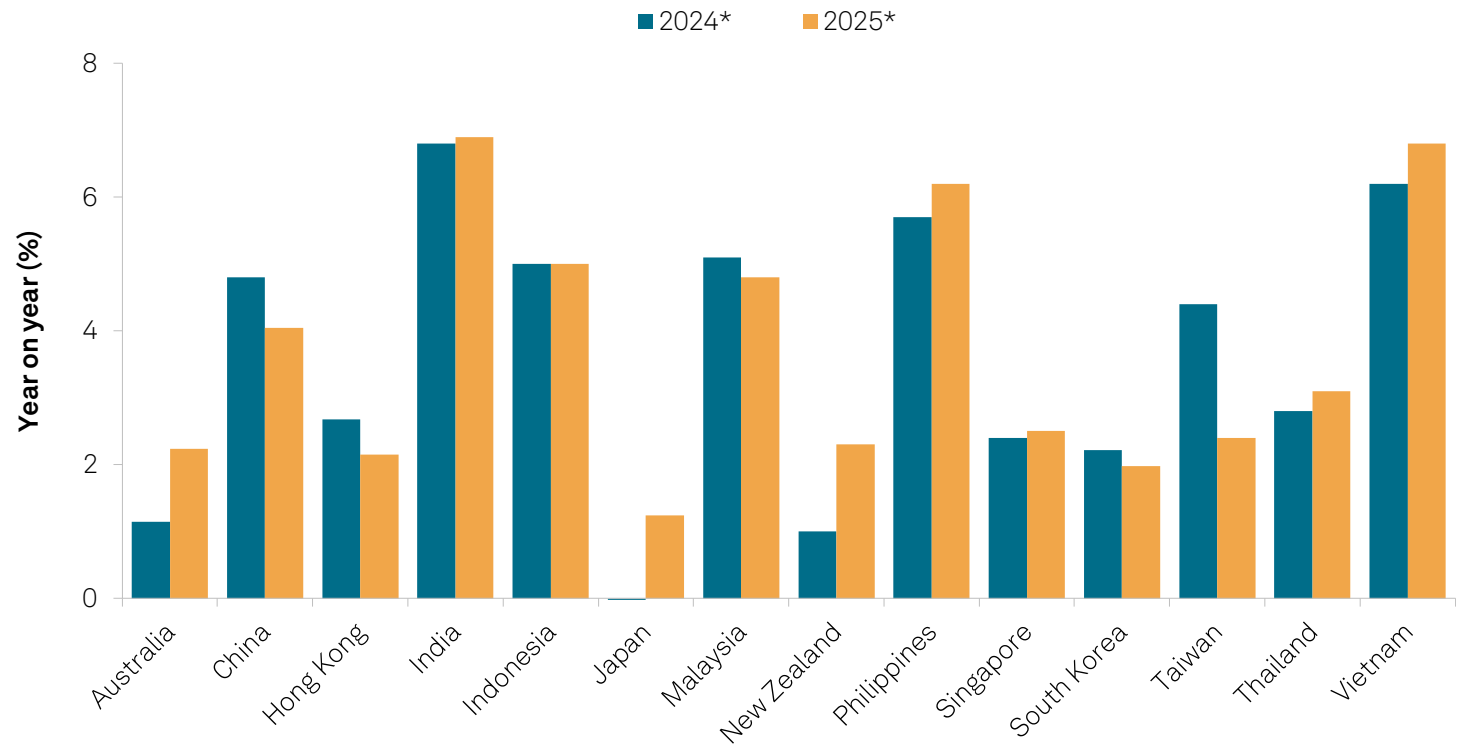


Sources: CEIC, S&P Global Ratings.

APAC | Key factors driving the growth outlook are evolving

- Exports are still rising but headwinds and risks have risen.
- We expect global demand growth to slow.
- Higher U.S. tariffs on Chinese exports would make other Asian economies more competitive in the U.S. But they would feel the pinch of weaker growth in China and a harder push by Chinese exporters elsewhere.
- The risk of U.S. trade restrictions on other Asian economies has risen.
- A gradual fall in interest rates and inflation should ease the drag on spending power, allowing better growth in 2025 in several developed economies.
- Robust domestic demand growth in emerging markets is supporting overall growth, even as it is moderating in some.

Emerging markets continue to lead GDP growth

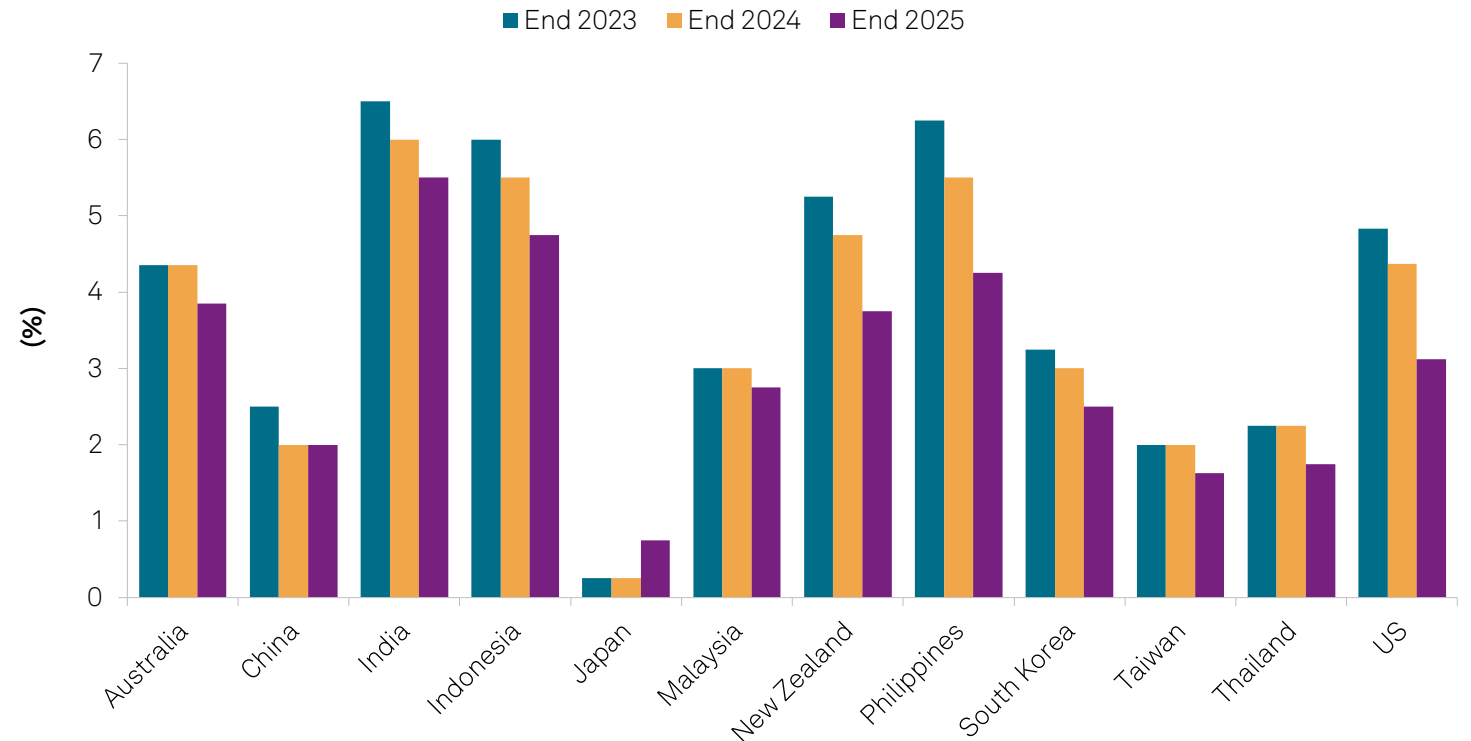


*September 2024 forecast. Sources: CEIC, S&P Global Ratings.

APAC | Central banks will be cautious in bringing down interest rates

- With inflation under control, some central banks have started cutting rates.
- But swings in capital flows driven by shifts in expectations about U.S. interest rates and trade policies require central banks to be vigilant and cautious.
- Asia-Pacific currencies have recently lost ground for these reasons. More such pressure may arise.
- Currencies may also be hit by renminbi weakening due to more U.S. trade tariffs on China.
- In this setting, we expect Asia-Pacific central banks to take their time bringing policy rates down, as they take into account interest differentials with the U.S.

Policy rates to come down gradually



*September 2024 forecast. Sources: CEIC, S&P Global Ratings.

Asia-Pacific Financing Conditions

Senior Economist, Credit Markets Research

Vincent Conti | Singapore

vincent.conti@spglobal.com

Head of Credit Markets Research

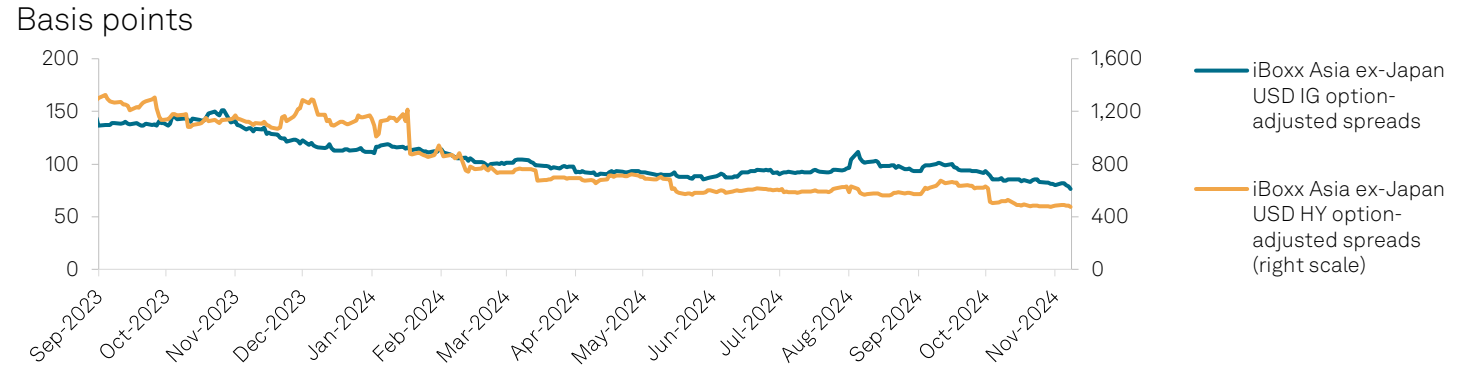
Patrick Drury Byrne | Dublin

patrick.drurybyrne@spglobal.com

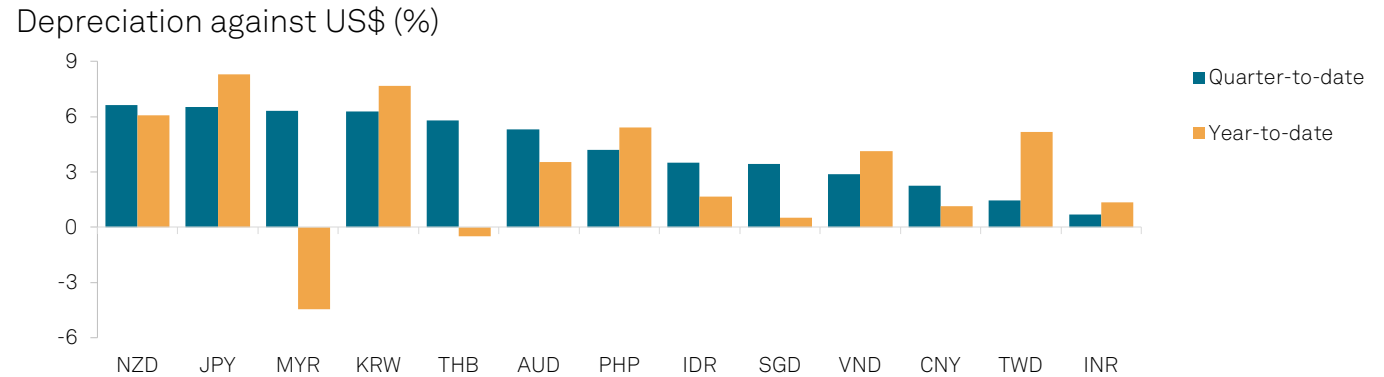
Recent improvement in financing costs may stall

- Benchmark dollar yields have risen and will likely stay high. A strong dollar environment persists. Both come on the back of markets pulling back expectations on the pace of U.S. rate cuts.
- These trends affect regional central banks' ability or willingness to ease their own monetary policies.
- Credit spreads remain tight. However, geopolitical risks--including their impact on trade, prices, and growth--pose a key risk not only to spreads and funding costs but also to access to financing.
- Local currency bond markets remain accessible, and bank funding remains generally available due to structural factors like high savings rates.

Asia ex-Japan spreads remain compressed



Currency depreciation has resumed in Asia-Pacific



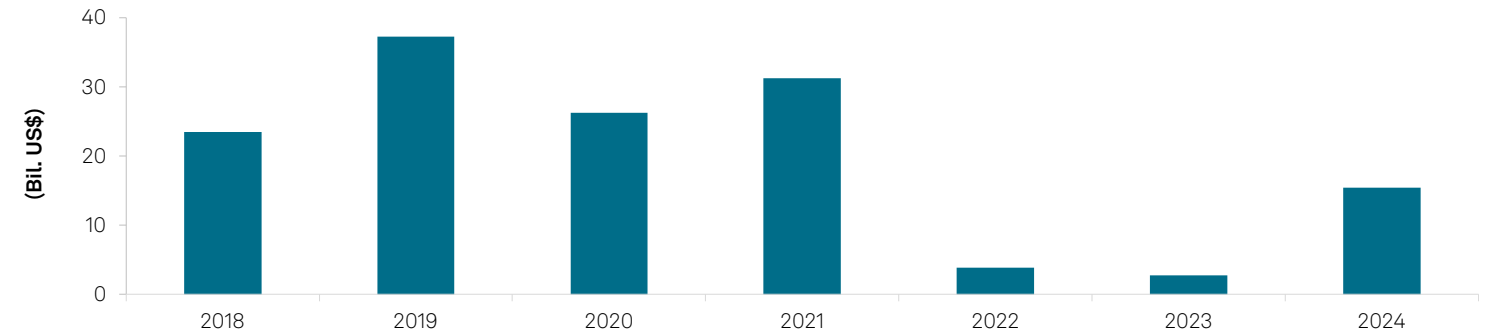
IG--Investment grade. HY--High yield. Source: S&P Global Market Intelligence, S&P Global Ratings Credit Research and Insights. Data as of Nov. 8, 2024.

Can the issuance recovery continue?

- Higher market uncertainty may undo the gradual recovery in issuance for offshore markets and lower rated issuers.
- The potential for high for longer U.S. rates could hit capital flows and currencies.
- The effects on investor demand and cost of offshore financing pose refinancing risk for lower-rated issuers with debt coming due over the next year or so.
- Bank credit growth seems contained on low loan demand. Selectivity is so far limited to specific sectors and markets (e.g., households in Korea, China property).
- However, geopolitical and economic risks may lead to more selectivity by investors and banks, as well as demand for higher risk premia.

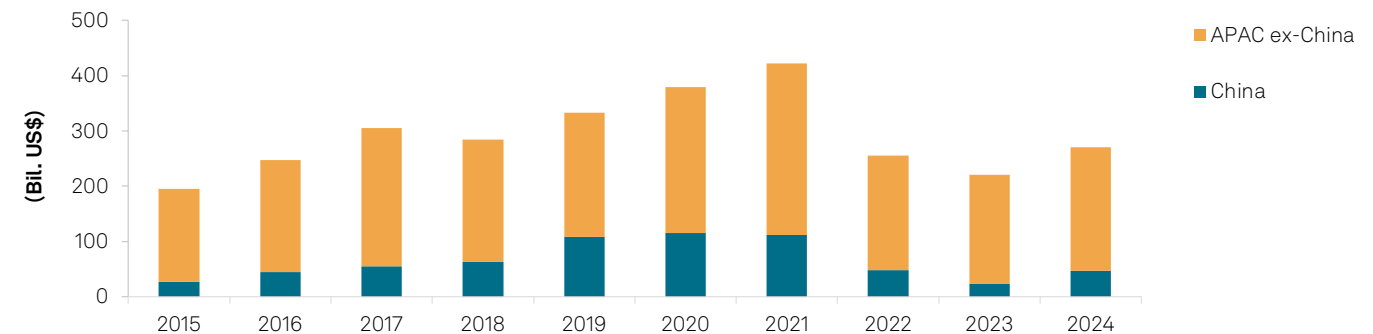
Speculative-grade issuance has been growing from a low base

Cumulative issuance volume, January to October



Nascent recovery in offshore issuance so far in 2024

Cumulative offshore issuance, January to October



Source: Refinitiv and S&P Global Ratings Credit Research and Insights. Data as of Nov. 7, 2024.

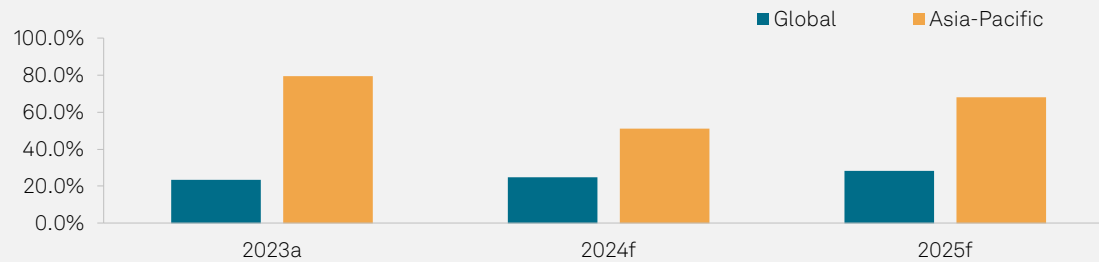
Asia-Pacific Sector Roundup

Auto

Steering around the obstacles

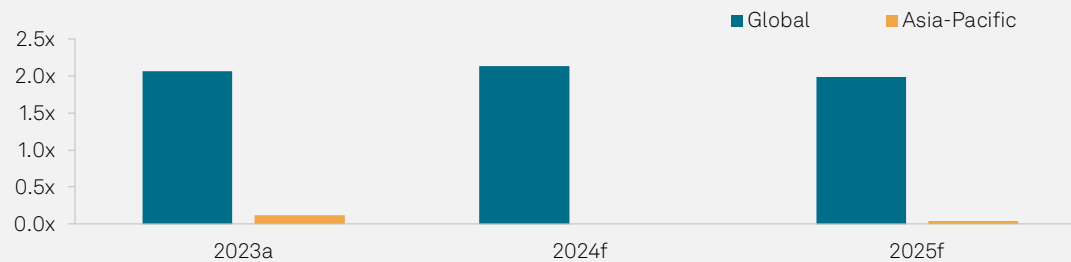
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

Primary credit analyst

Claire Yuan | Hong Kong

claire.yuan@spglobal.com

What do we expect over the next 12 months?

- Global light vehicle sales to grow 1%-3% in 2025-2026. Electric vehicle penetration will rise steadily in China, and at a slower pace in the U.S and Europe.
- Soft demand outlook, high pricing pressure, and rising electric vehicle sales will keep margin pressure elevated for automakers.
- Yet, improving product mix, tighter cost control and solid balance sheet underpin steady credit profiles for most rated Asia-Pacific auto firms.

What are the key risks around the baseline?

Dimming demand prospects

- In China, still fragile consumer confidence could constrain auto demand recovery. The trade-in policy launched in 2024 may pull forward demand and dampen consumption in 2025.
- In the U.S and Europe, which are important markets for Japanese and South Korean carmakers, weaker-than-expected economic recovery could hurt consumer spending.

Stiff competition

- Price wars could further escalate in China. Competition is set to heighten in the mass-market category.
- Pricing pressure is rising in the U.S. and Europe, with increasing affordability issues and rising inventories.

What do they mean for the sector?

Production and mix adjustment

- Production discipline is needed to reduce inventory levels. Carmakers are also optimizing product mix to suit a more cost-conscious customer base.

Margin strain

- A souring price environment, higher sales incentives and increasing electric vehicle sales will drag the profitability of Asia-Pacific carmakers.
- For Japanese and Korean auto makers, slower electrification in the U.S and Europe, solid demand for hybrid vehicles, and mix improvement will partially alleviate margin pressure.

EV transition challenge

- With electrification being an irreversible trend globally, if Japanese automakers fail to catch up in EVs, downside risks to their business strength would heighten over the next three to five years.

Building Materials

Asia-Pacific producers face many uncertainties

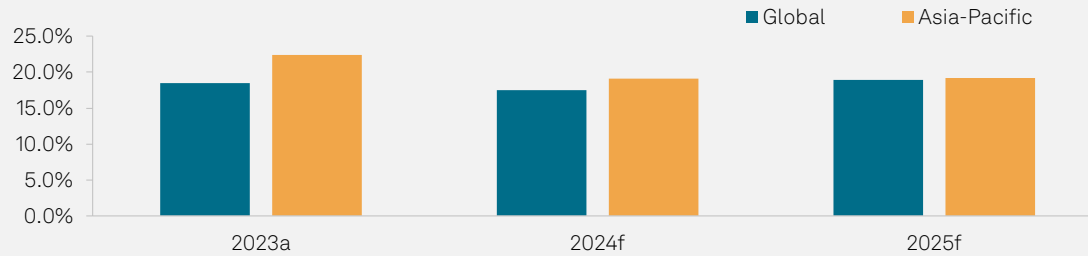
Primary credit analyst

Crystal Wong | Hong Kong

crystal.wong@spglobal.com

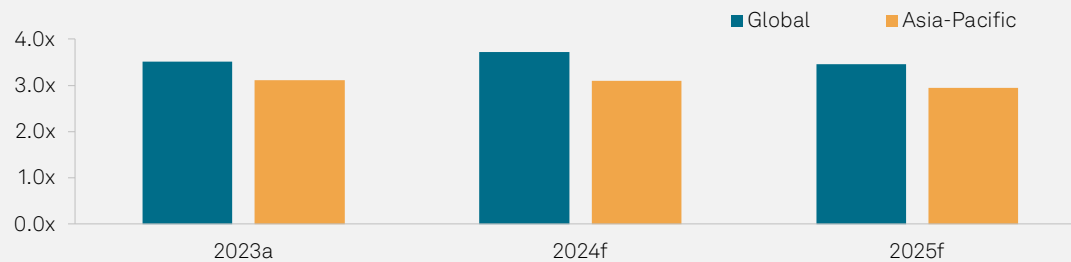
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What do we expect over the next 12 months?

- The satisfactory competitive position and sufficient financial headroom of most rated Asia-Pacific building material companies will help them manage industry weakness.
- Fragile developer confidence remains the biggest risk for the building materials industry, with a low number of new construction starts.
- In Korea, the overall construction sector sentiment remains weak with sluggish demand.

What are the key risks around the baseline?

China: A further slowdown of the property sector and moderating growth in infrastructure investment

- Our base case sees the property market stabilizing toward the second half of 2025. A slower timeframe points to continued low land acquisitions and new construction activities.
- The central government is increasingly selective on project approval and has mandated highly indebted local governments to focus on debt risk resolution.

Korea: Weak construction sector

- Weak sentiment with low demand in regional cities; high costs and project financing loans for smaller players.
- Housing transactions and pricing are improving in certain prime regions. However, this has started to taper off in recent months with tighter mortgage-lending regulations.

What do they mean for the sector?

Ongoing drags on demand

- Low land acquisitions and new starts in China will directly hit construction and demand for building materials, especially for basic building materials (cement).
- Other materials, such as gypsum board and waterproofing material, may fare better with support from rising renovation needs, stemming from increasing secondary market sales.
- In Korea, weak housing market sentiment will have the same impact.

Margin pressure

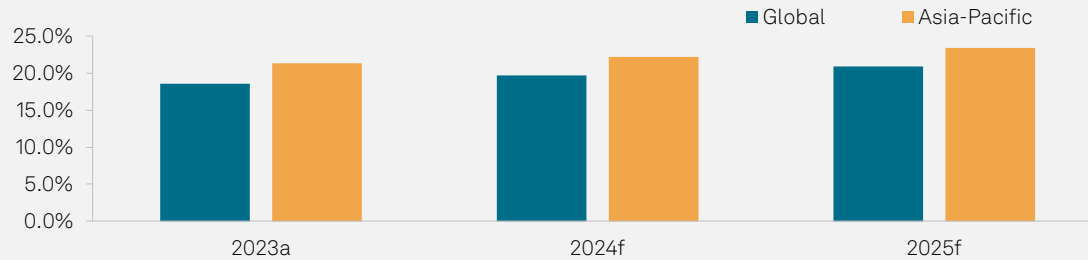
- Weak demand and still-high input costs--such as coal, raw materials, and labor--will likely constrain profitability for building material companies.
- Such strains will be greater for smaller Chinese players because of their weaker ability to pass on costs amid industry weakness.

Capital Goods

Solid orders for longer cyclical products will support earnings

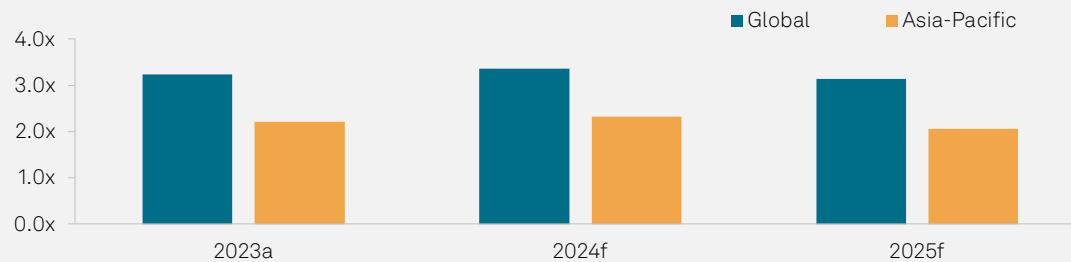
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Primary credit analyst

Shinichi Endo, CFA | Tokyo

shinichi.endo@spglobal.com

What do we expect over the next 12 months?

- Solid orders for longer cyclical products, such as power generation equipment, will support earnings of heavy industries.
- An economic slowdown in China and the U.S. will weigh on earnings of issuers dealing with short cyclical mass products.
- Key drivers of credit quality will be the demand outlook and degree of margin protection, as well as cash flow management with solid financial discipline.

What are the key risks around the baseline?

Sharper global economic slowdown

- Further downside in the U.S. economy or China property could prolong the slowing growth trend, and keep demand stagnant in certain markets (e.g., factory automation for manufacturing).
- Slowing global growth could sharpen and dampen earnings of issuers, particularly those dealing with mass products that have higher sensitivity to macroeconomic conditions.

Persistently higher cost pressure

- Higher cost pressures from tight labor conditions, high raw material and utility prices and supply-chain disruption.

Higher spending on decarbonization

- Issuers involved in power generation are under pressure to decarbonize and invest more in new technologies. However, Asia-Pacific is relatively more accepting of conventional, stable power sources.

What do they mean for the sector?

Margin pressure

- Weaker demand and soft sales, together with a tough competition, would prevent companies from meaningfully improving EBITDA and margins.

Delayed improvement in cash flow metrics

- We assume capital goods companies will cautiously manage growth investment and shareholder returns.
- If a sharper economic slowdown chokes demand, or spending requirements for decarbonization rapidly increase, cash flow ratios could deteriorate.

Chemicals

China's stimulus may do little to lift the sector

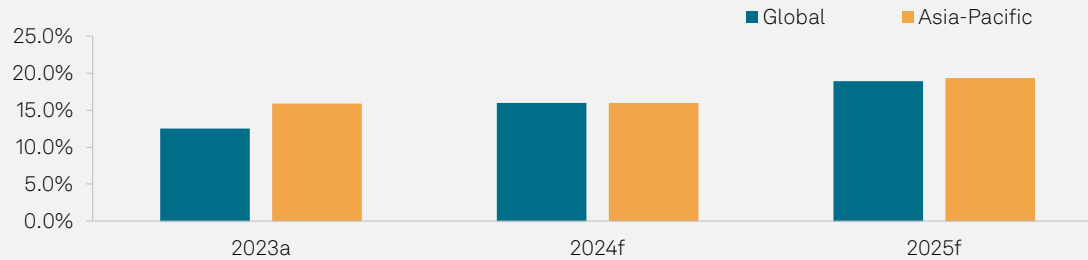
Primary credit analyst

Raymond Hsu, CFA | Taipei

raymond.hsu@spglobal.com

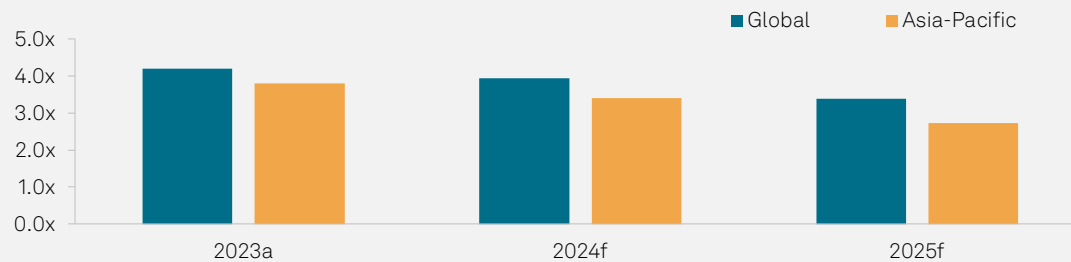
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What do we expect over the next 12 months?

- The Chinese government's measures will increase demand growth by stabilizing the property market and accelerating consumption.
- Overcapacity is unlikely to ease quickly, capping the recovery in the sector's profitability in 2025.
- Leverage of commodity chemical companies will fall slightly but remain elevated as weak profitability and cash flow persist.

What are the key risks around the baseline?

Persistent overcapacity

- Aggressive capacity additions in China in combination with weak demand growth could keep utilization well below the mid-cycle level, adding to constant pricing and cost pressures for Asia's chemical companies.

Tepid demand growth

- Weakness in China's property market and slowing growth in exports from Asia could prevent a material acceleration in demand growth, prolonging severe overcapacity.

A weaker ability to pass through costs

- High crude oil prices could constrain the ability of commodity chemical companies in Asia to pass through product costs, in the face of competition from low-cost gas-based chemical producers in the Middle East and the U.S.

What do they mean for the sector?

Weak profitability

- Rated chemical companies' profitability could rebound gradually in 2025 with slightly better supply-and-demand dynamics and stronger non-commodity chemical businesses.
- However, the sector's profitability is likely to stay materially below the average of past cycles in 2025, given still-low utilization.

Slow deleveraging

- Deleveraging will likely be slower because of still-weak profitability, despite cuts in capex.

Elevated credit risk

- Chronic overcapacity amid growing self-sufficiency in China could structurally weaken profitability and raise business risk for commodity chemical makers.
- Financial risk will stay elevated as financial buffers remain thin for the ratings on some commodity chemical companies over the next 12 months.

Consumer Products

Stable input costs mitigate challenges in consumption

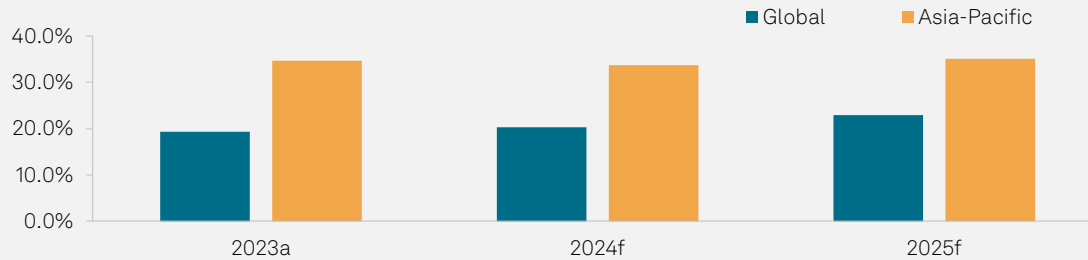
Primary credit analyst

Ryohei Yoshida | Tokyo

ryohei.yoshida@spglobal.com

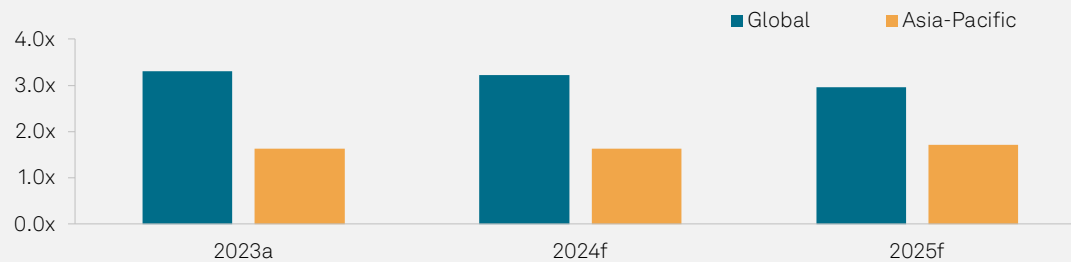
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What do we expect over the next 12 months?

- Subdued consumer confidence will keep sales volume and product mix under pressure while markup opportunities cease.
- Profitability remains broadly stable thanks to past markup efforts by consumer goods companies and moderate input cost inflation.
- Easing financing conditions will gradually prompt companies to turn to more aggressive financial policies.

What are the key risks around the baseline?

Price competition intensifies

- Consumers are trading down to cheaper, no-brand goods, benefiting private-label brands. This will constrain product markups.

Pressure on sales volume and product mix rises

- Household budgets may stay tight even after inflation subsides, because real consumer incomes have not sufficiently recovered from past price increases.
- This will leave sales volume and product mix under pressure and constrain profitability in the absence of markup opportunities for the industry.

Financial policies turns more aggressive

- While lower refinancing costs ease pressure for companies with highly leveraged capital structures, it creates room for others to turn to more aggressive financial policies.

What do they mean for the sector?

Brand equity matters

- High value-add and a differentiated offering enable firms to protect profitability in an environment of intensified price competition.
- Companies without solid brand equity will face fewer opportunities to mark up, thus constraining their ability to drive up profits.

Cost initiatives become increasingly important

- Consumer companies need to find sources for operational efficiencies to support its performance as both markup and volume growth opportunities are pressured.
- Any missteps in operational initiatives could weaken performance, and hamper credit headroom.

Likelihood of M&A increases

- Consumer goods companies could incur more debt amid more merger and acquisitions, narrowing credit headroom.

Financial Institutions

Market volatility is likely to persist

Rating distribution

No. of entities



Outlook distribution

NEGATIVE

2.8%

WATCH NEG

0.5%

STABLE

91.3%

DEVELOPING

1.0%

WATCH DEV

1.0%

POSITIVE

3.4%

As of Oct. 31, 2024. Source: S&P Global Ratings.

Primary credit analysts

Gavin Gunning | Melbourne

gavin.gunning@spglobal.com

Geeta Chugh | Mumbai

geeta.chugh@spglobal.com

What do we expect over the next 12 months?

- Asia-Pacific financial institutions are satisfactorily managing economic and property-sector risks.
- Market volatility has re-emerged after a period of relative calm. We believe the potential damage to credit profiles during 2024 and into 2025 will be limited for most banks.
- A material economic or property downside scenario outside our base case would be more challenging for banks at current rating levels.

What are the key risks around the baseline?

A material economic downside emerges

- Policy missteps at the start of the rate easing cycle for some jurisdictions, or much weaker-than-expected economic growth or employment trends outside our base case would be a greater test for banks' borrowers and asset quality.

Property risks intensify

- A worsening of property risks across the region that are under strain, most notably China's, will hit banks.

Structural risks

- Many risks due to climate change, cyber, and digitalization are a slower burn for banks but increasingly are anticipated to test banks' business models.

What do they mean for the sector?

Credit losses will increase

- We anticipate that Asia-Pacific banks' credit losses will increase in 2024 to over US\$500 billion.
- Capitalization, earnings, and other buffers are adequate for most banks, however.

Greater credit differentiation

- More vulnerable are financial institutions with concentrated business and funding profiles, high direct exposures to weak counterparties or sectors; and those that are non-systemically important or don't benefit from strong, committed parent groups.

Governments may yet throw a lifeline

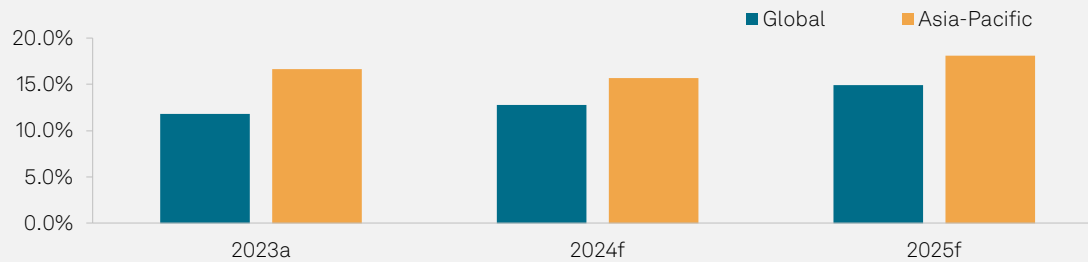
- We believe that extraordinary government support is likely (if it were ever required) for systemically important private sector commercial banks across most of Asia-Pacific.

Gaming

Going beyond recovery mode

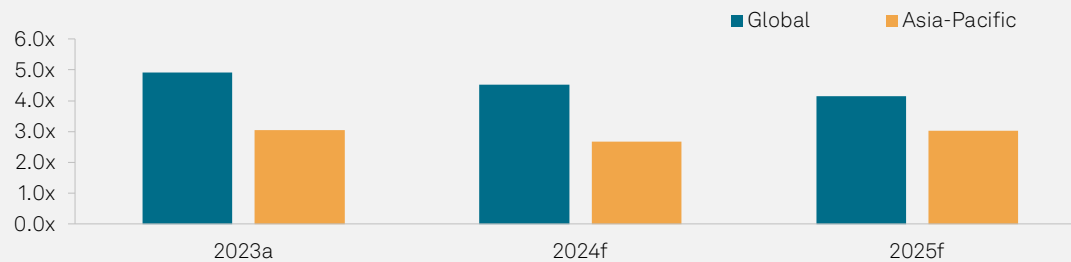
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

Primary credit analyst

Aras Poon | Hong Kong

aras.poon@spglobal.com

What do we expect over the next 12 months?

- For Macao, we expect to see further increase in base mass, particularly casual players.
- Gaming revenue in Singapore and Malaysia should further improve, benefiting partly from a visa-free arrangement with China. The elimination of Chinese junket operators in Cambodia will hurt some issuers.
- In Australia and New Zealand, soft but improving economic conditions will likely continue to weigh on electronic gaming machine revenues. Lower interest rates should alleviate some pressures.

What are the key risks around the baseline?

Higher capital expenditure for development projects

- Las Vegas Sands, Wynn Resorts Ltd., MGM Resorts International, and Genting Bhd. will likely bid for up to three full-scale casino licenses available in New York. Many of them also have development projects under way elsewhere.

Economic headwinds in China, Australia, and New Zealand (particularly Auckland)

- If stimulus measures don't reignite mainland China's economy, Macao faces greater risks relative to other markets, given its very high dependence on mainland visitors.

Heightened regulatory oversight in Australia

- The South Australian regulator recently resumed its review into SkyCity Adelaide's suitability to hold its casino license (findings due by end of 2024).

What do they mean for the sector?

The outcome of New York gaming licenses will be a watchpoint for several rated issuers

- The scale of the project could add leverage compared with our base-case forecasts and slow improvement in credit measures or erode leverage cushions for others.

Growth in Macao could be slow if mainland Chinese visitors curb spending on leisure amid prolonged economic softness

- Base mass players are likely sensitive to changing economic conditions--particularly softness in employment. Premium mass players are generally less affected by economic volatility, but this could change if asset prices decline further.

Implementation of mandatory carded play

- SkyCity Entertainment vows to implement mandatory carded play across its New Zealand casinos by mid-2025 and at SkyCity Adelaide by early 2026.
- Most of SkyCity's patrons already use carded play, but a stricter customer onboarding process could lead to some loss of gaming revenues.

Insurance

Capital cushions protect against market volatility

Primary credit analyst

WenWen Chen | Hong Kong

wenwen.chen@spglobal.com

Rating distribution

No. of entities



Outlook distribution

NEGATIVE

0.0%

WATCH NEG

1.7%

STABLE

85.0%

WATCH DEV

0.6%

WATCH POS

0.0%

POSITIVE

12.7%

As of Oct. 31, 2024. Source: S&P Global Ratings.

What do we expect over the next 12 months?

- Market volatility and interest rate cuts in most jurisdictions could narrow earnings.
- Rising claims from extreme weather and medical inflation may test insurers' ability to price for risk.
- Credit trend remains stable, given adequate capital buffers.

What are the key risks around the baseline?

Market turmoil intensifies

- Escalating geopolitical tensions and sharper-than-expected monetary policy adjustments by some major central banks could heighten capital market volatility.
- Still-high interest rate differentials and forex volatility will keep hedging costly for insurers in Japan and Taiwan.
- Credit stresses in real estate and alternative investments could prompt insurers to reassess risk-adjusted returns.

Poor claim experience

- More frequent and severe weather events could mean higher catastrophe-related claims. Climate-change induced nonmodeled exposure points to understated loss provisions.
- Reinsurance costs are moderating but remain high and could disrupt risk-mitigation plans.
- Persistent medical claims inflation could dilute margins and prompt product repricing.

What do they mean for the sector?

Market swings point to rethink of investment strategy

- Equity market volatility weighs on earnings, diluting capital. Forex risks persist for insurers' unhedged overseas investments (e.g., Taiwan and Japan).
- Anticipation of rate cuts (ex-Japan) could cause a reassessment of investment allocation and asset-liability management.
- Widening spreads and volatility in investment income may cause earnings contraction.

Strained margins

- Underwriting profit shrinks as the frequency of extreme weather increases and medical claims inflation intensifies.
- Still costly reinsurance cover could entail higher risk retention by primary insurers, posing risk of margin volatility.

Media And Entertainment

Tepid outlook for 2025 with some bright spots

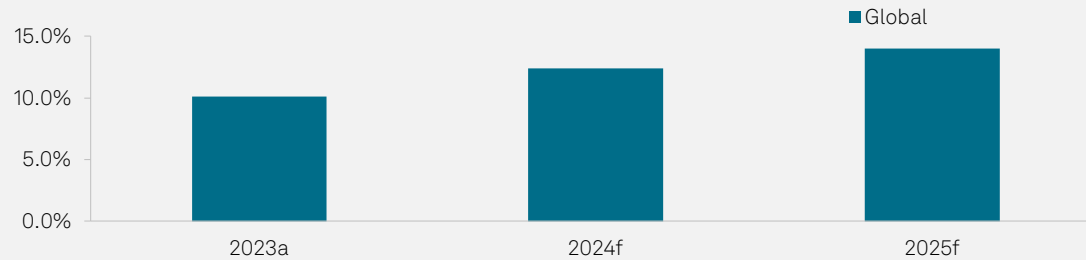
Primary credit analyst

Clifford Kurz, CFA | Hong Kong

clifford.kurz@spglobal.com

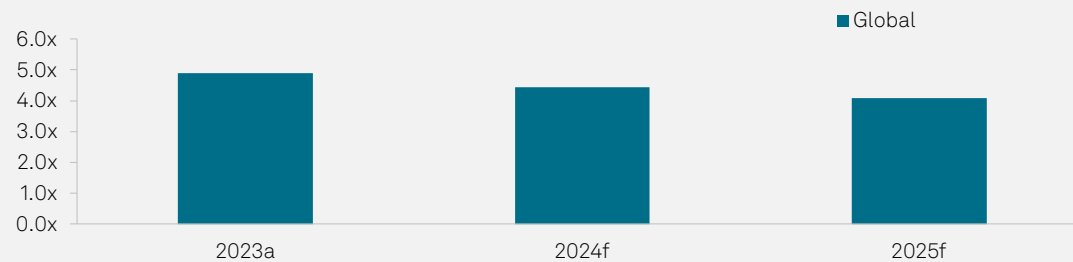
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. Nearly all Asia-Pacific media & entertainment rated issuers have zero debt on an adjusted basis. These rated issuers are not included in the above charts. FFO--Funds from operations. a--Actual. f--Forecast. Source: S&P Global Ratings.

What do we expect over the next 12 months?

- China online advertising and e-commerce revenues to slow in 2025 despite recent government support measures.
- Profit margins could come under pressure as growth slows. This is particularly so in e-commerce where competition remains intense across most of Asia-Pacific.
- Online games and music could be a bright spot for the Asia-Pacific media and entertainment sector.

What are the key risks around the baseline?

Consumer confidence remains a key risk in China

- Recent support measures may not significantly improve consumer sentiment and drive spending growth over the next 12 months.
- Further consumer spending softness would hurt e-commerce and online advertising spending.

Emerging platforms pressure ad pricing

- Growing ad supply and monetization of e-commerce opportunities on newer social media formats will spread advertisers' spending across more channels, pressuring ad pricing for established online advertising platforms.

What do they mean for the sector?

E-commerce and online advertising face soft 2025 outlook

- Unless stimulus in China meaningfully boosts consumer confidence, advertising and e-commerce spending are likely to slow to about 5% growth in 2025, from about 9% in 2024.
- Profit margins could be under pressure for some rated issuers given ad supply growth, slowing e-commerce growth, and intense competition.

Better growth prospects for online games and music

- Online music benefits from recurring revenues, a growing base of paying users, and stabilizing live-streaming revenues. Some fixed content costs will also benefit profit margins.
- Online game revenue growth should remain relatively resilient. Higher spending per user is spurred by new game content after China's resumption of game license approvals in mid-2022.

Metals And Mining

Steady despite demand obstacles

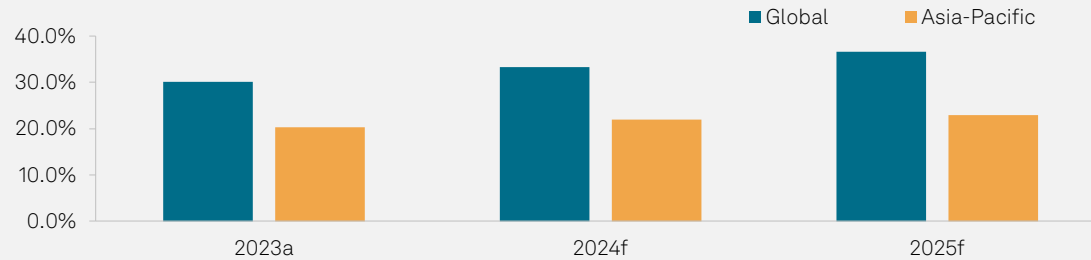
Primary credit analyst

Annie Ao | Hong Kong

annie.ao@spglobal.com

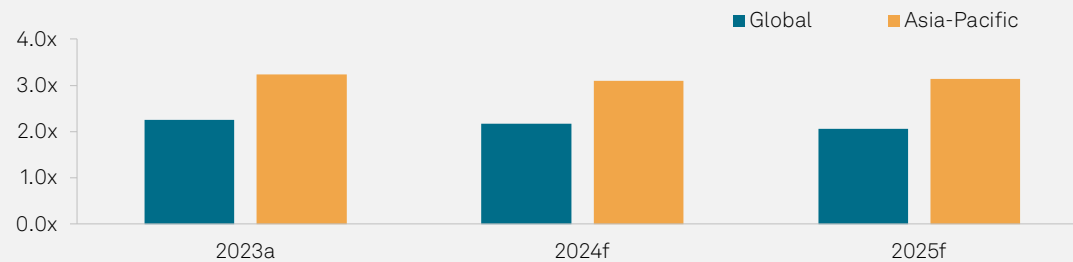
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

What do we expect over the next 12 months?

- Most industrial metals prices will hold steady on supportive demand from construction and machinery investments, even as U.S. growth slows. China's stimulus measures could lead to upside risk to 2025 demand.
- Supply tightness, energy transition, and sanctions on Russia metals support certain metals, such as copper and aluminum.
- Supply surplus will persist for some other industrial metals and downstream industries, such as China's steel and battery materials, and Indonesia's nickel.

What are the key risks around the baseline?

Economic pressure looms

- The global macroeconomic outlook remains mixed.
- China's new stimulus measures are unlikely to significantly change the country's economic growth outlook.

Geopolitical risks escalate

- The uncertainty of how these risks unfold further limits price visibility.
- The Middle East conflicts have a limited impact on the metals market for now, but if coupled with other regional conflicts, could disrupt supply.

Increasing trade restrictions

- One example is on China's steel products. China's increasing steel exports could heighten trade hurdles in Europe and the U.S., or even in some Southeast Asian countries and India.

What do they mean for the sector?

Upstream mining companies will maintain a stable credit profile despite high operating costs

- The credit profiles of upstream mining companies have stabilized.
- Most issuers can withstand further price pain before testing our downside credit threshold.

Downstream players' profitability will remain under pressure

- Profitability of China steel mills is unlikely to firmly rebound without a meaningful recovery of domestic construction activities and supply-side control.
- The competitive pressure from China's steel exports on other Asian countries will weigh on regional steel prices and regional players' profitability.

Oil And Gas

Amid slower demand, delayed OPEC+ cuts add support

Primary credit analyst

Pauline Tang | Singapore

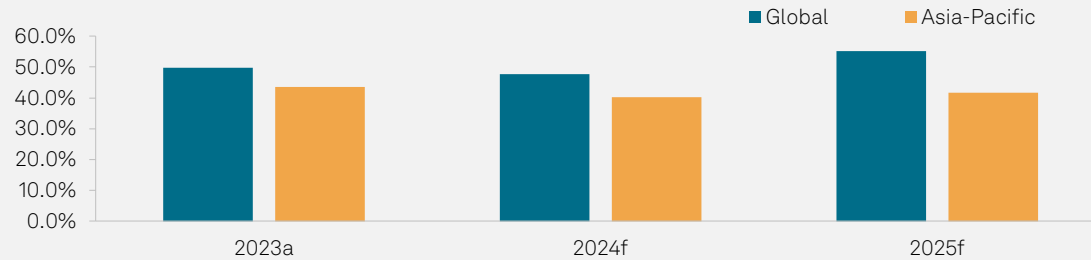
pauline.tang@spglobal.com

What do we expect over the next 12 months?

- Front-of-mind risks include rising uncertainty post-U.S. election around trade policies, foreign relationships, interest rates and economic outlooks-- as well as implications on oil and gas supply-demand dynamics.
- The effect on oil prices from softer global demand and the possibility OPEC will shift to capturing market share, outweigh support from OPEC+ delays in production hikes.
- In early October, we lowered our Brent oil prices assumption to US\$75 per barrel for the rest of 2024 and beyond.

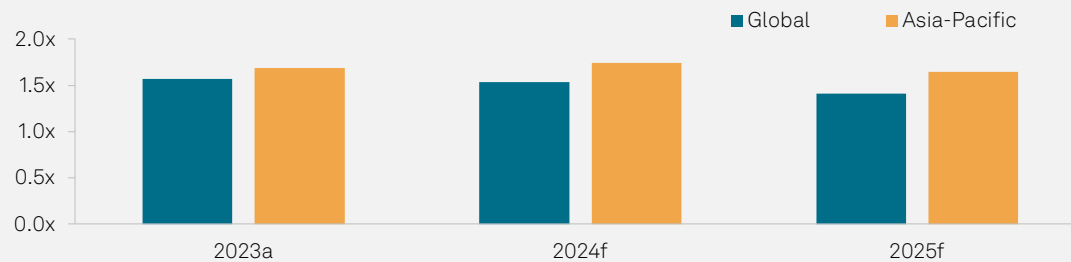
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

What are the key risks around the baseline?

Despite the Fed's rate cuts, global economies may still face a sharper-than-anticipated slowdown

- China's oil demand will likely be at a subdued 380,000 barrels per day in 2024 and 2025, compared with 700,000 barrels per day per annum from 2010-2019.
- We estimate global demand for the rest of 2024 will be 1.7 million barrels per day, lower than 2.1 million barrels in 2023.

U.S. election and OPEC+ strategic shift to capturing market share could alter the group's output policy

- Post-election changes in U.S. trade ties, foreign affairs, energy policies, and government spending could alter the country's oil and shale production, consequently affecting China's demand and the Middle Eastern producers' outputs.

Supply-demand dynamics causing volatility more so than geopolitical tensions

- Geopolitical tensions will fuel unease about oil supply and energy security, but we believe there is currently no material risk premium embedded in prices.

What do they mean for the sector?

Persistent volatility and earnings headwinds

- High volatility will pose downside risks to earnings, feeding through to decisions on capex for rated companies.
- More uncertainty on the Fed's policy rate profile, U.S. policies, and global economy could prompt the region's oil and gas producers to delay or scale back their investment plans, particularly in non-petroleum related projects. This, in turn, could slow down the region's progress in the energy transition.
- Risk aversion will not materially affect most rated Asia-Pacific producers' access to capital or refinancing given that most rated producers are investment-grade national oil companies.

Public Finance

Debt increase outpaces rate cuts

Rating distribution

No. of entities



Outlook distribution

NEGATIVE

32.9%

WATCH NEG

0.0%

STABLE

67.1%

DEVELOPING

0.0%

WATCH POS

0.0%

POSITIVE

0.0%

As of Oct. 31, 2024. Source: S&P Global Ratings.

Primary credit analysts

Kensuke Sugihara | Tokyo

kensuke.sugihara@spglobal.com

What do we expect over the next 12 months?

- High interest payments will continue to weigh on local and regional governments (LRGs) and associated enterprises with elevated funding plans.
- Infrastructure spending will boost debt burdens for many LRGs in China, Australia, and New Zealand. The negative net outlook bias in the region mainly reflects New Zealand LRGs.
- Tail risks include debt and liquidity risks of indebted borrowers spilling over, leading to systemic financing problems and loss of market confidence.

What are the key risks around the baseline?

Increase in debt outpacing rate cuts

- Debt of many LRGs has risen far above pre-pandemic levels and may rise further. Despite the decline in policy rates, borrowers will face heightened debt service.

Property market correction

- Prolonged declines in land and traditional revenue in China, without adequate offsets from other sources, may lead to further delays in fiscal consolidation, even with expenditure cuts.

Policy shifts

- New water reforms in New Zealand are under development. It is unclear if the impact on local government finances will be positive.
- Failure to contain local SOE debt risks in certain weak regions in China could have a negative effect on regional credit.

What do they mean for the sector?

Divergence becomes the norm

- LRGs with aggressive fiscal stimulus or large spending appetites are seeing fiscal deficits and debt reaching levels that will be difficult to restore to prior levels.
- Divergence is increasing among Asia-Pacific jurisdictions, with local governments in Japan and Korea experiencing either contained or declining debt growth.

Diminishing room for policy adjustments or execution errors

- Balancing growth objectives and debt resolution is becoming increasingly delicate and could become more burdensome for Chinese LRGs.

Real Estate Development

Funding, confidence key to stabilizing China property

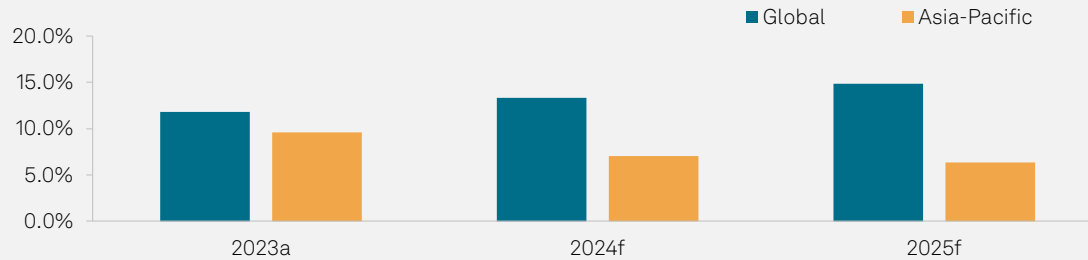
Primary credit analyst

Edward Chan | Hong Kong

edward.chan@spglobal.com

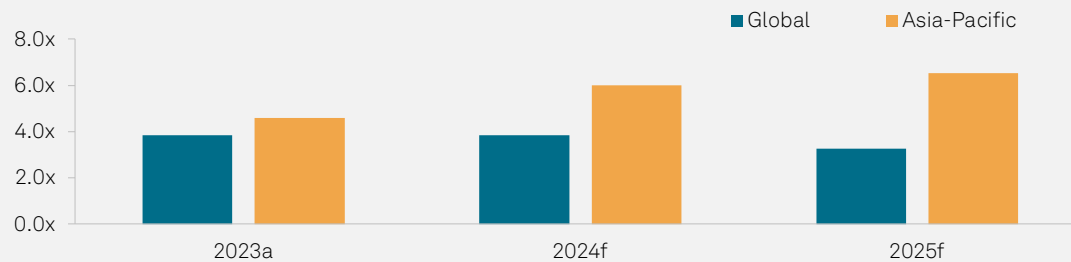
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

What do we expect over the next 12 months?

- Primary property sales could stabilize later in 2025. This will depend on the government's continued support for funding for developers and efforts to reduce stock, and boost homebuyers' confidence.
- Hong Kong home prices are likely to remain soft amid elevated supply of primary homes.
- Refinancing risks among Indonesia developers have eased. About 60% of their offshore notes maturing in 2025 have been repaid or tendered throughout 2024.

What are the key risks around the baseline?

Chinese developers' funding conditions remain choppy

- From January to August 2024, the accumulated sources of funds from domestic loans, self-raised funds, and foreign capital fell 6.6% year-on-year.
- Those that have a state-owned background or sufficient investment property assets that could be pledged to obtain bank borrowings have better access to financing.

Hong Kong primary residential inventory, supply remain high

- New supply in 2025 will likely be about 20,000 units. This will outpace the annual demand of 10,315 units-21,108 units over the past five years.

Indonesian homebuyers' sentiment in 2025 will depend on the direction of property tax policies

- Without further stimulus, the scheduled expiration of VAT reduction at the end of 2024 will dampen housing demand in 2025, leading to a 5%-10% contraction in property sales.

What do they mean for the sector?

Chinese developers cautious on new starts and acquiring land

- We anticipate the percentage of newly added salable resources in relation to contracted sales will significantly decrease in 2024 for all the developers we rate.
- Developers focusing on premium-quality residential products in higher-tier cities will experience more resilient sales performance amid the downcycle.

Hong Kong developers will continue to focus on destocking

- Amid high inventory, rated developers will continue to adopt conservative pricing strategies, particularly for mass-market products, in our view. This will pressure margins and leverage.

Indonesian developers' free operating cash flow to remain thin

- Annual amortization of domestic bank loans will consume the bulk of their surplus cash.
- Indonesia's president-elect proposes eliminating the 16% property tax. Subject to approval, this plan is likely to support property sales and reduce cash flow pressure.

Real Estate Investment Trusts

Landlords, REITs' credit quality may remain divergent

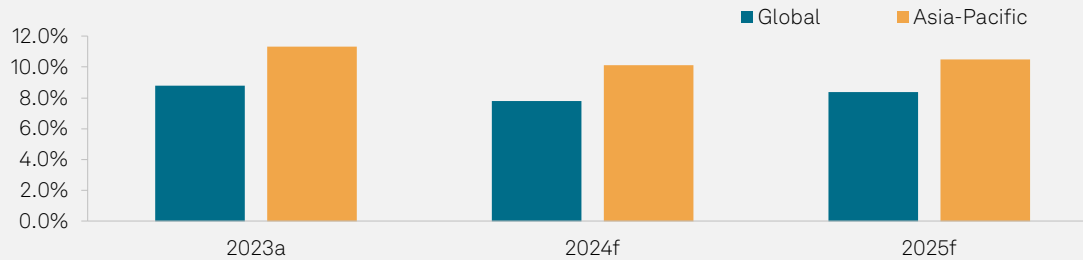
Primary credit analyst

Simon Wong | Singapore

simon.wong@spglobal.com

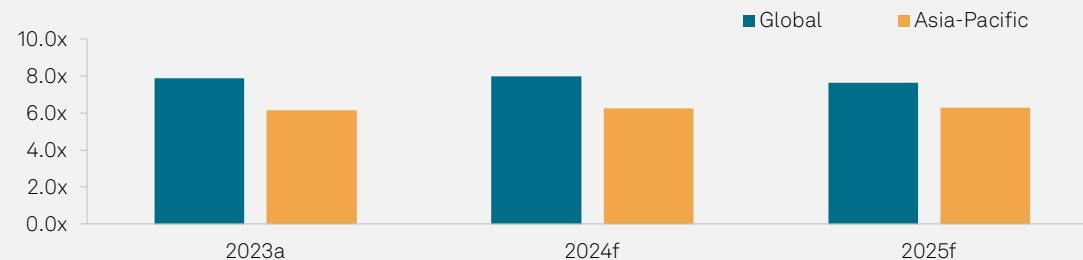
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

What do we expect over the next 12 months?

- Office landlords to face more structural and cyclical pain. Valuation pressures remain for major Australian cities and Hong Kong due to supply challenges.
- Credit metrics and covenant headroom are bottoming but will take time to meaningfully improve.
- Logistics, hospitality, and retail (nondiscretionary) assets remain well supported.

What are the key risks around the baseline?

Landlords fail to monetize assets to deleverage on a timely basis

- Higher-for-longer rates in Australia have kept purchasers on the sidelines, stymying landlords' efforts to deleverage.
- Sales of office assets at depressed prices will exert further downward pressure on office valuations.
- This could further erode gearing covenant headroom and funding avenues for our rated landlords.

Average funding costs stay high, crimping credit metric headroom

- Faster-than-expected interest rate hikes in Japan and sluggish revenue increase could dent Japanese landlords' credit metrics. Recovery in interest coverage ratio could take longer.
- Landlords may face higher funding costs at the next fixed-rate debt reset. Non-Hong Kong landlords are unlikely to benefit much from Fed rate cuts, as most borrow in local currency.

What do they mean for the sector?

Landlords to consider all available capital-management levers to improve narrower credit metrics

- Asset divestments, distribution payout reduction, deferral of non-essential capex, and equity fundraisings are some capital initiatives used by Asia-Pacific REITs under rating pressure.
- Any concrete signs of stabilizing capitalization rates should encourage capital inflows to the sector.

Refinancing risk remains manageable for landlords with covenant headroom

- Banks remain supportive of prime commercial assets in key Asia-Pacific gateway cities.
- Pressure on debt maturity profiles should ease as landlords are more receptive to longer funding tenor.

Financial buffers remains thin

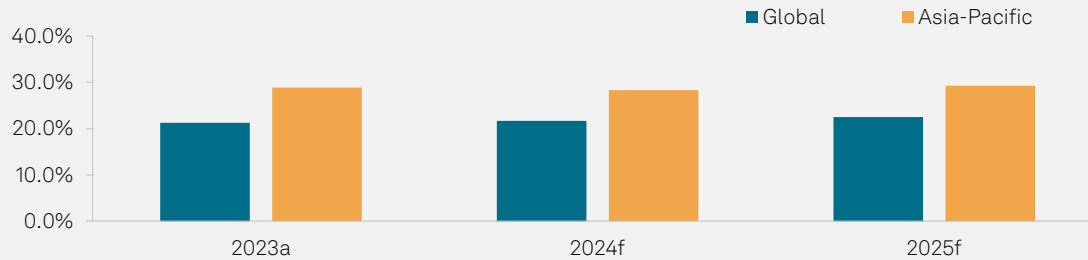
- Office valuations in Australia and Hong Kong could decrease further, affecting gearing and covenant buffer.
- We expect most rated Asia-Pacific REITs can still withstand the challenging operating and financial conditions.

Retail

Revenue growth to slow amid weak spending

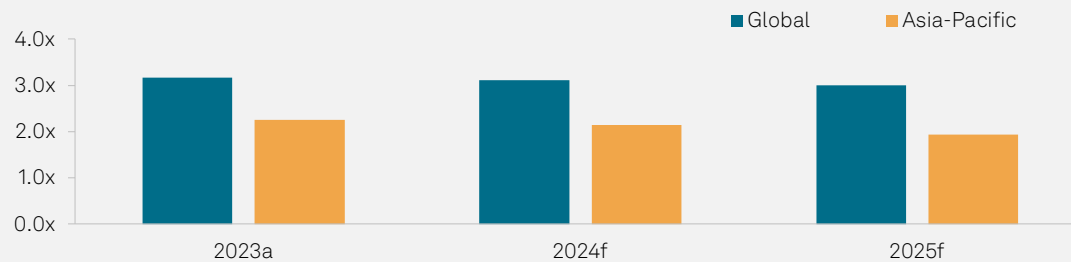
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

Primary credit analyst

Sandy Lim, CFA | Hong Kong

sandy.lim@spglobal.com

What do we expect over the next 12 months?

- The net rating bias has worsened as retail sentiment in the region declines.
- This is occurring particularly in discretionary spending and the acceleration of trading down behavior.
- EBITDA margins are stable and should hold up in the next 12 months.

What are the key risks around the baseline?

Weak topline risks

- Consumers are cautious with declining real disposal income and their confidence is low.
- Top-line growth is decelerating, with some discretionary categories turning negative.

Regional differences

- In Australia, supermarket operators face scrutiny on pricing and marketing practices.
- In China, trading down is accelerating across multiple categories.
- In Japan, weak domestic consumption is weighing on retail, despite solid tourist inflows.

Profit attribution

- Retailers are stepping up on cost reductions and operational efficiency to maintain profit margins.
- Japanese issuers are relatively shielded from slow domestic consumption because overseas earnings are growing.

What do they mean for the sector?

Cautious outlook

- Bargain hunting is spreading as purchases skew toward downtrading and necessities.
- China stimulus has yet to lift consumer confidence and retail sales. Japan and Pacific consumers face inflationary pressure; 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.

M&A ahead

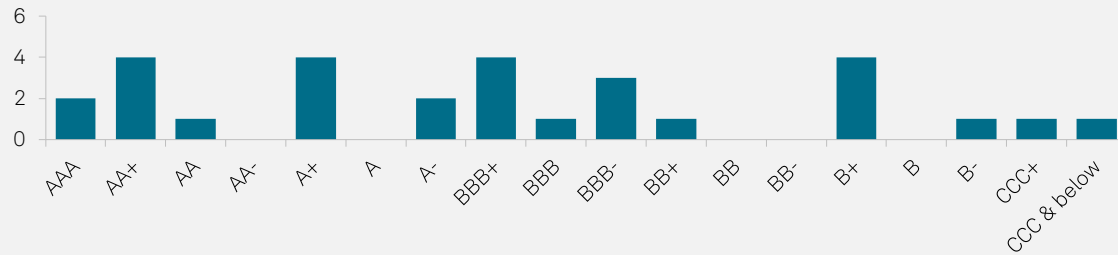
- Reorganization of companies in Japan's retail market is accelerating as the population shrinks, which will likely prompt further consolidation locally and acquisitions abroad.

Sovereign

Geopolitical risks back to the forefront

Rating distribution

No. of entities



Outlook distribution

NEGATIVE

0.0%

WATCH NEG

0.0%

STABLE

85.7%

WATCH DEV

0.0%

WATCH POS

0.0%

POSITIVE

14.3%

As of Oct. 31, 2024. Source: S&P Global Ratings.

Primary credit analyst

KimEng Tan | Singapore

kimeng.tan@spglobal.com

What do we expect over the next 12 months?

- Global economic activity and financing conditions remain stable as interest rates start to decline even as inflation rates remain stable in most major economies.
- Current account balances and inflation in many economies should improve, especially if energy and other commodity prices remain broadly stable.
- We still anticipate some governments will meaningfully lower fiscal deficits, although a return to pre-pandemic fiscal performances will take longer in many cases.

What are the key risks around the baseline?

A potential rebound in energy prices would seriously undermine external and fiscal metrics

- This could result if risks related to the Middle East conflict intensify.

Sudden capital swings

- Further escalations in the war in Ukraine or the Middle East could bring about a more negative outlook for the global economy and exacerbate investor risk aversion.
- Should sentiment toward Asian emerging markets deteriorate sharply, capital outflows could intensify.

What do they mean for the sector?

A rebound in funding costs could weaken fiscal support and economic growth

- Higher interest payments are negative for fiscal support to sovereign ratings, especially where government debt is high and nonresidents are important sources of funding.
- If higher financing costs also significantly affect economic growth, this could exacerbate the hit to fiscal performance.

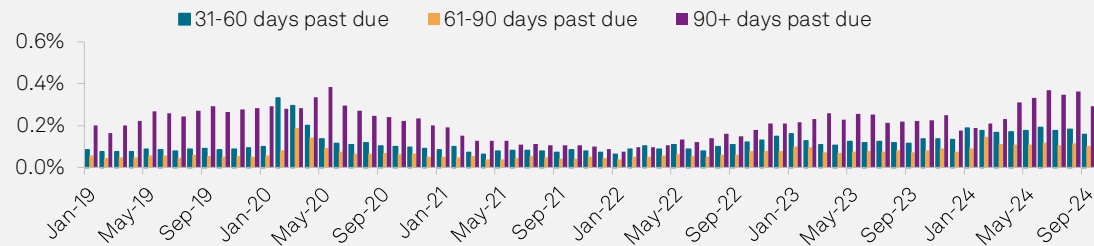
Resurging costs of energy imports could damage external support for some Asia-Pacific sovereigns

- Net external indebtedness would weaken where current-account deficits persist or widen because of energy imports.
- Additionally, such a deterioration could worsen investor confidence and further raise financing costs.
- These deteriorations could damage the credit support of some sovereigns.

Structured Finance

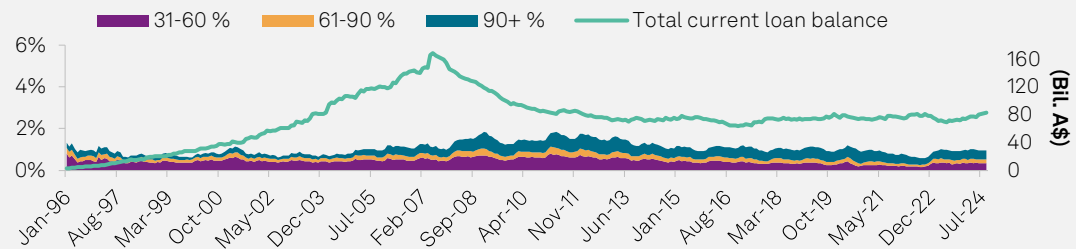
Consumer confidence remains fragile

China auto loan ABS W.A. asset delinquency rates



Data as of Sept. 30, 2024. The delinquency rates of the first three months after transaction close are excluded. ABS--Asset-backed securities. W.A.--Weighted average. Sources: Trustee reports published on Chinabond's website; S&P Global Ratings.

Australian RMBS prime SPIN data



Data as of Sept. 30, 2024. Source: S&P Global Ratings.

Primary credit analyst

Narelle Coneybeare | Sydney

narelle.coneybeare@spglobal.com

What do we expect over the next 12 months?

- Consumer confidence remains soft across markets, discouraging purchases and making households cautious; this will be reflected in lower loan volumes.
- Interest rates are likely to ease in 2025 in Australia and New Zealand. Households still face cost-of-living pressures and budgets remain stretched.
- Some weakening in asset performance is likely in 2025 as unemployment increases moderately in some markets.

What are the key risks around the baseline?

China's housing sector risk

- This sector remains weak. Homebuyer confidence remains low and continues to weigh on mortgage loan volumes, despite stimulus measures.

Unemployment

- We are seeing unemployment rise from post-pandemic lows for Australia and New Zealand.

Rates and inflation

- For Japan, modest increases in rates could be meaningful for the country. In our view, inflation could stress household finances if it is not accompanied by growth in real wages.
- We expect some easing of rates Australia and New Zealand in 2025.

What do they mean for the sector?

Delinquencies to rise

- We expect delinquencies to increase across most markets and asset types, particularly those exposed to rising unemployment and elevated interest rates.
- However, this is off historically low levels and is generally supported by broadly low unemployment trends and expected to be modest.

Issuance is likely to diverge

- Lower consumer lending could reduce issuance of structured-finance assets.
- We expect consumer ABS issuance to remain active across the region.
- The outlook for residential MBS issuance is mixed, with China and Japan seeing lower issuance. After record issuance from Australia in 2024, we expect activity to remain buoyant in 2025.

Structural supports are in place

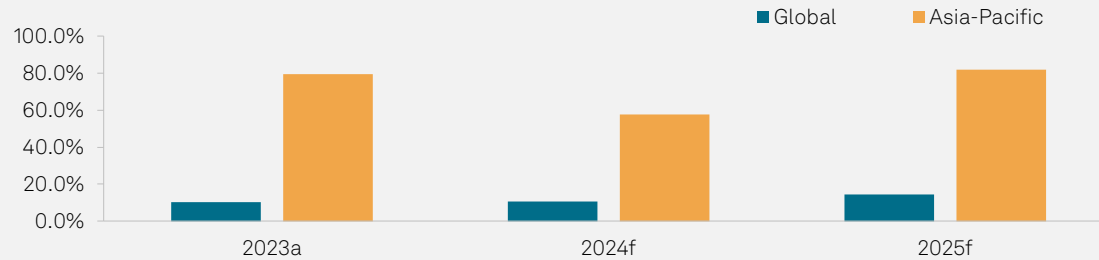
- Most transactions have or can build support to mitigate downside risks.

Technology

Weak demand and geopolitical risk weigh on recovery

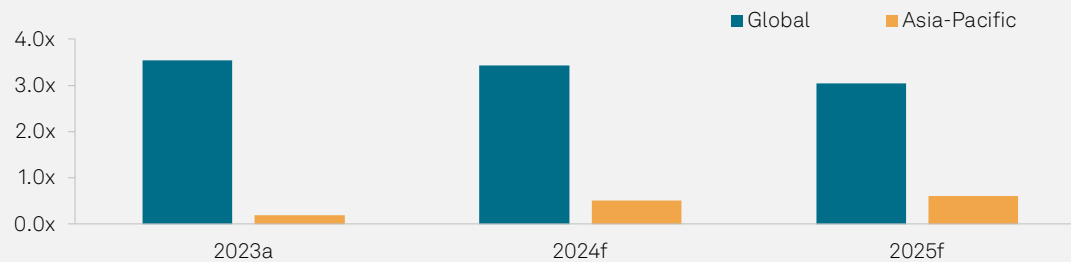
FFO to debt

Median, adjusted (%)



Debt to EBITDA

Median, adjusted (x)



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. Source: S&P Global Ratings.

Primary credit analysts

Kei Ishikawa | Tokyo

kei.ishikawa@spglobal.com

Cathy Lai | Hong Kong

cathy.lai@spglobal.com

What do we expect over the next 12 months?

- An AI super cycle will continue, boosting sales of high-bandwidth memory and AI-related products.
- The recovery in consumer electronics is lukewarm. Demand from industrials and auto will be subdued.
- With more regulatory uncertainty in China tech sector and global tech trade, mid and downstream hardware companies are setting up alternatives to China.
- Most rated tech issuers have sufficient rating buffer, despite high capex needs.
- Refinancing remains a hurdle for lower-rated issuers.

What are the key risks around the baseline?

Consumer sentiment takes time to meaningfully recover

- Macro strains in China and the U.S. could derail a recovery of the export-oriented Asia-Pacific tech sector.
- AI features and new smartphone and PC models are driving some replacement in the premium segment. AI-driven demand could cause higher uncertainty and inventory risk.

Geopolitical risks will persist irrespective of the U.S. election outcome

- Further trade restrictions and supply chain diversification will amplify inflationary pressures and investment inefficiencies.

Overcapacity of mature semiconductors

- Asia-Pacific foundries specializing in mature chips could face escalating pressure on pricing and profitability owing to sizable new capacity increases mainly from China.
- Long-term contract protections of foundries and the China diversification strategy will partially mitigate risks.

What do they mean for the sector?

Margin trend diverges by sub-sectors

- High-bandwidth memory demand holds up strong for AI applications, while conventional memory business will face pressure on ASP and margin.
- Margin pressure will remain high for players dependent on other end markets such as autos and industries.

High cash flow volatility

- Pressure stems from working capital swings, investment in capacity, new technology and relocation of production facilities, and macro and geopolitical uncertainties.

Sufficient rating buffers for most Asia-Pacific tech issuers

- This is despite working capital swings, high capital expenditure, and active investments for growth.
- High funding costs and weak capital structures weigh on lower-rated issuers.

Telecommunications

Telcos step up investments in new growth engines

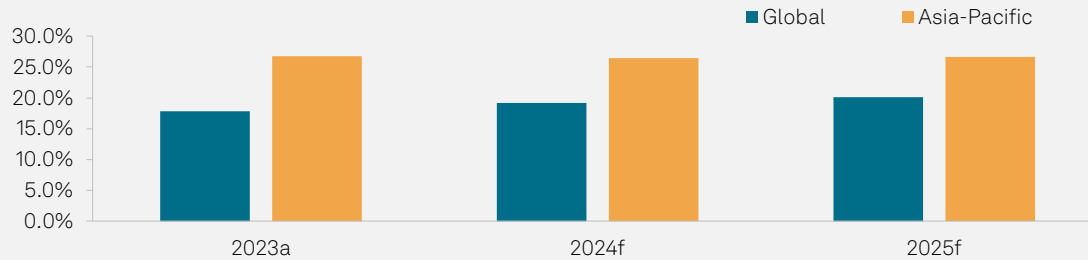
Primary credit analyst

Yijing Ng | Singapore

yijing.ng@spglobal.com

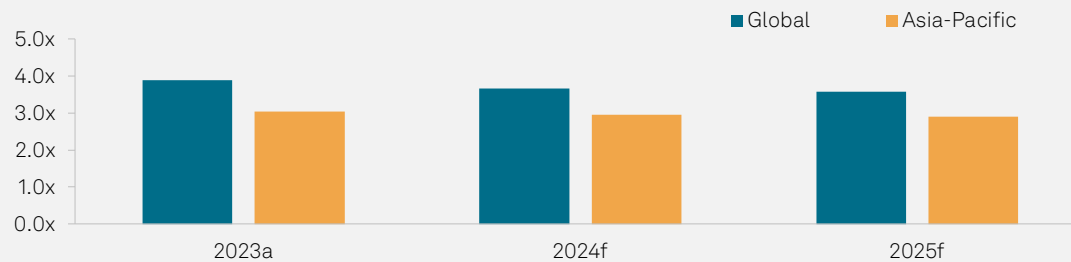
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What do we expect over the next 12 months?

- Telecom operators' earnings will see modest growth. Cost-cutting, supported by AI adoption and simplified business structures, remains a common theme.
- Spending to pivot to new growth engines, such as AI. Easing network capex and divestments of non-core businesses and assets boost balance sheet capacity.
- Competition to moderate; infrastructure sharing to increase in some markets.
- Consolidation and the need to recoup heavy network investments are push factors.

What are the key risks around the baseline?

Macro risks

- Macro uncertainties and inflation could mean slower upgrades by consumers to pricier plans and limit telcos' ability to raise prices. This could weaken demand from enterprise customers.
- Rising input costs may undermine telcos' efforts to cut costs.

Rising investment in growth engines

- Investments in segments such as fiber, cloud, data centers and AI are rising, and, if debt-funded, can erode rating headroom, as new earnings streams take time to ramp up.
- Execution risks could also weigh on balance sheets.

A need for more 5G capex

- Some telcos may need to fund another capex wave as they move to standalone 5G. This risk is medium term as telcos are hesitant to invest further without clear monetizable use cases.
- Sporadic spectrum buys could also exacerbate leverage.

What do they mean for the sector?

More infrastructure sharing, competition easing

- Telcos will pursue more cost-cutting measures. There is increasing mention of the use of AI to reduce costs.
- Players in markets such as Australia, Philippines, and Malaysia have proposed or entered network sharing agreements. Tower sharing should rise following tower sales in recent years.
- Market consolidation (in Indonesia, Taiwan, and Thailand) will ease competition and bring cost synergies, while price hikes in other markets (India and Australia) will boost telcos' topline.

Divesting non-core assets

- With rated Asia-Pacific telcos mostly at investment grade, the focus is on financial policy.
- Telcos will continue selling non-core businesses and passive infrastructure assets to fund new growth engines. In our view, some telcos have restructured their businesses to facilitate subsequent divestments.
- There is also initial momentum in bringing in strategic partners for new growth engines such as data centers.

Transportation Cyclical

Focus on cost management amid easing air traffic demand and freight rates

Primary credit analyst

Susan Chen | Taipei

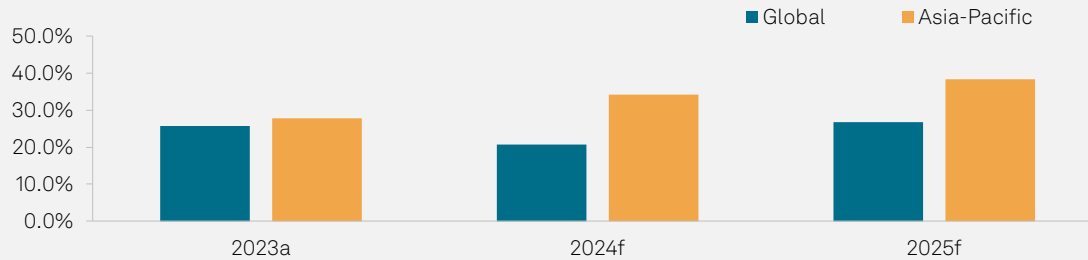
susan.chen@spglobal.com

What do we expect over the next 12 months?

- Passenger air traffic demand to remain resilient. Airlines will focus on cost management as air traffic growth normalizes, and fuel costs and competition remain high.
- A correction in freight rates for the container shipping sector to continue, given deliveries of new megaships. Red Sea re-routing will be a moderating factor.
- Decarbonization pushes will drive costs and capital expenditure higher.

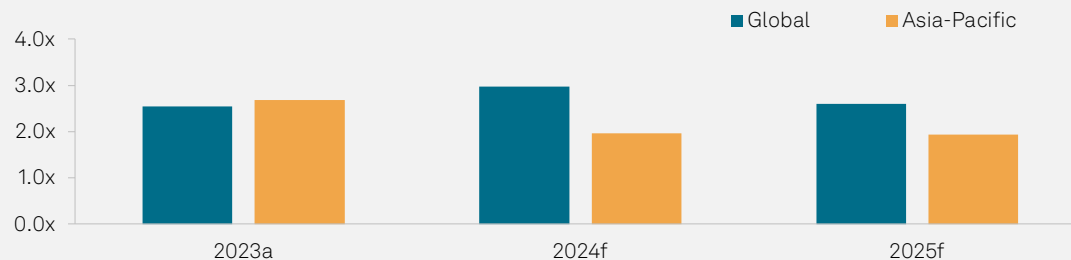
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What are the key risks around the baseline?

Slowing economy, geopolitical shocks

- Slower growth and geopolitical tensions could weigh on global trade, further derailing the recovery in aviation and worsening oversupply in container-shipping.

Supply-side constraints linger for aviation, ease for freight

- Delayed aircraft deliveries, maintenance backlogs and engine problems could impede airlines' path to full capacity, and aircraft lessors' growth prospects.
- The increasing tonnage of megaships could pressure freight rates once the Red Sea disruption eases. Long-haul routes where large ships tend to operate, will be hit hardest.

High (but easing) interest rates and increasing fuel costs

- High rates could gradually moderate the improvement in airlines' credit metrics as regional central banks remain cautious on rate cuts.
- Greener and more costly fuels could pressure airlines and carriers' profitability.

What do they mean for the sector?

Airlines to stay focused on managing costs

- Passenger traffic growth, load factors, and yields will moderate as the post-pandemic recovery plateaus.
- Airlines' ability to maintain their competitive edge and save on costs will be crucial to preserving profit margins.

Capacity management and cash buffers are key for carriers

- Container liners will take actions to manage the rise in capacity to prevent a free fall in freight rates.
- Freight operators will likely maintain their strong capital structure, underpinned by large cash on hand and projected strong profit for 2024.

High capex for better operating efficiency and green initiation

- Carriers could invest in more fuel-efficient vessels to improve cost structure and meet stricter emissions rules.
- Meanwhile, supply-chain constraints in aviation could slow fleet renewal.

Transportation Infrastructure

Geopolitics, uncertainty to test business resilience

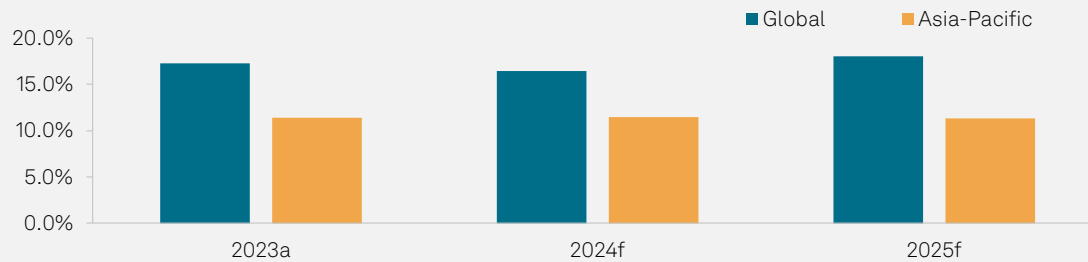
Primary credit analyst

Laura Li, CFA | Hong Kong

laura.li@spglobal.com

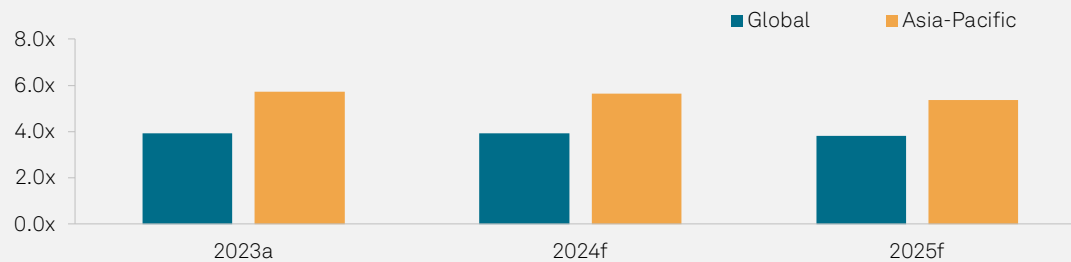
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What do we expect over the next 12 months?

- Passenger traffic growth is subsiding. Freight volume will likely remain resilient, albeit with downside risks from economic uncertainty and geopolitical tensions.
- Volume and/or tariff/fare increases (in some markets) will buttress profitability. Those tapering spending could see improvements in key metrics.
- Overall rating bias remains positive. A few negative outlooks are due to tepid operation or weakening external support; positive ones reflect expected cash flow growth from higher tariffs.

What are the key risks around the baseline?

Demand risks and intensifying trade protectionism

- Global trade slowdown could hit demand for goods from the region. China's slower growth could affect other Asia-Pacific countries, especially those reliant on Chinese import demand.
- Intensifying trade protectionism may dampen exports to the major developed markets.

Inflation weighing on some developed Asia-Pacific economies

- Inflation is still lingering in several markets (e.g., Australia), which could constrain trade demand and travel needs.
- Inflation is easing in other places, and its impact will remain uneven across the region.

Still high rates in some markets may pressure borrowers

- Particularly 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?

Volume growth could be lower than we expect

- Potential tariff hikes from the U.S. and other major economies, and a slowdown in China, could curb demand for transportation infrastructure.

Domestic funding costs support financing in many regions

- Access remains strong to cheaper funding from domestic banks and the onshore bond markets in places such as China and India. This supports capex financing or debt refinancing.
- Some countries' issuers continue to benefit from inflation-linked tariff/fare increases.

Leverage will stay higher than the global level

- This is mainly due to continued large capex to improve efficiency or to meet demand growth, or lower tariff/fare levels in consideration of affordability.

Utilities

Grid and tech availability may constrain energy transition

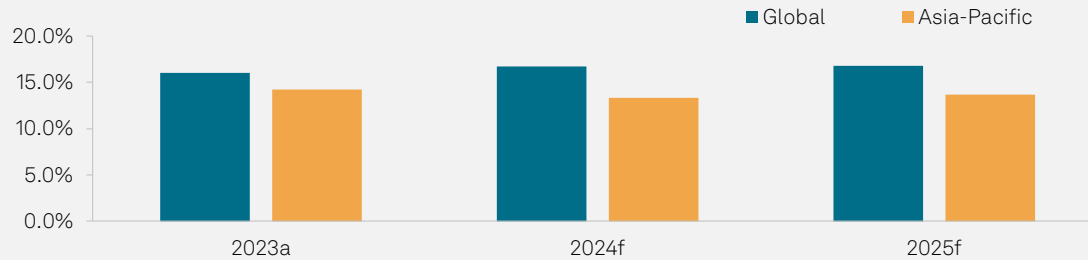
Primary credit analyst

Apple Li | Hong Kong

apple.li@spglobal.com

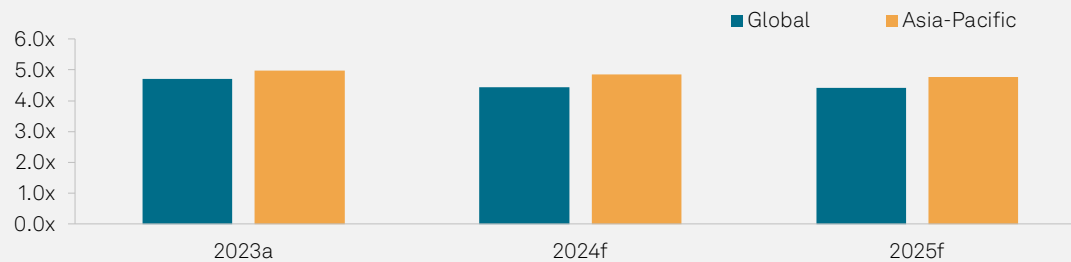
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What do we expect over the next 12 months?

- Demand will grow at about 5% in line with economic growth. Further rate cuts will likely support earnings and margins.
- Large spending on renewables (including grid and storage) and coal-fired capacity (for energy security) will keep leverage high.
- The rating bias remains positive, reflecting a recovery in volumes, accelerated capacity expansion, and declining fuel cost pressures.

What are the key risks around the baseline?

Accelerated new investments and funding needs

- We view excessive debt funding of new developments and adverse regulatory reforms or interventions as risks.
- Capex will focus on renewables, integrated hybrid projects, grid and energy storage, and the acquisition of renewables.
- Slower than expected rate cuts may exacerbate leverage.

Geopolitical conflicts

- This may lead to spikes in fuel costs, reversing the margin recovery trend.
- While we observe some fuel cost passthrough in some markets, it is uneven across all entities.
- Companies may face supply-chain risks in budgeting and capex delivery processes.

Technology limitations slow the energy transition process

- Availability of infrastructure such as smart grid and power storage facilities may stall progress toward energy transition.

What do they mean for the sector?

Capacity increment and grid constraints weigh on utilization

- Accelerated expansion of renewables without sufficient grid or storage facilities could heighten the risk of curtailment and increase volatility of contract pricing and volume.
- This risk is rising in China, and is apparent in Australia, due to a lack of contractual protection.

High working capital needs due to electricity-price volatility in some markets

- In China, power tariffs will moderate as market-based pricing reform deepens.
- Any spike in fuel cost due to the disruption of energy supply could hurt profitability in some markets. Effective cost passthrough will be key to support cash flow.

Carbon credits may rise as an additional income source

- Income from green certificates and carbon credits may contribute more to operations as governments expand the energy transition to more sectors in some markets.

Related Research

- [China Brief: More Transparency Means More Official Debt For Local Governments](#), Nov. 12, 2024
- [China Bond Recovery Review 2024: Liquidations Surge As Resolutions Fall](#), Nov. 11, 2024
- [Asian Steelmakers' China Strains Will Roll On](#), Nov. 7, 2024
- [Asia-Pacific Financial Institutions Monitor 4Q 2024: Government Support Buttresses Bank Ratings](#), Oct. 31, 2024
- [Credit FAQ: Will China's Latest Stimulus Initiatives Achieve Lift-Off?](#), Oct. 25, 2024
- [China Property Watch: Charting A Path To Stabilization](#), Oct. 18, 2024
- [Handbook On Geopolitical Risk In Asia-Pacific Tech: Latest Updates On Tech Restrictions And Risk Exposures](#), Oct. 16, 2024
- [Credit Cycle Indicator Q4 2024: Credit Recovery Prospects Are Mixed Across Markets](#), Oct. 1, 2024
- [Credit Conditions Asia-Pacific Q4 2024: Mixed Signals: Growth And Rates](#), Sept. 25, 2024
- [Economic Outlook Asia-Pacific Q4 2024: Central Banks To Remain Cautious Despite U.S. Rate Relief](#), Sept. 24, 2024

Analytical Contacts

Asia-Pacific Credit Research



Eunice Tan

+65-6530-6418

eunice.tan@spglobal.com



Christine Ip

+852-2532-8097

christine.ip@spglobal.com

Economics



Louis Kuijs

+852-9319-7500

louis.kuijs@spglobal.com



Vishrut Rana

+65-6216-1008

vishrut.rana@spglobal.com

Credit Market Research



Vincent Conti

+65-9336-3785

vincent.conti@spglobal.com



Vera Chaplin

+61-3-9631-2058

vera.chaplin@spglobal.com

Asia-Pacific Ratings



Christopher Lee

+852-2533-3562

christopher.k.lee@spglobal.com

Analytical Contacts

Auto



Claire Yuan

+852-2533-3542

claire.yuan@spglobal.com

Building materials



Crystal Wong

+852-2533-3504

crystal.wong@spglobal.com

Capital goods



Shinichi Endo, CFA

+81-3-4550-8773

shinichi.endo@spglobal.com

Chemicals



Raymond Hsu, CFA

+886-2-2175-6827

raymond.hsu@spglobal.com

Consumer products



Ryohei Yoshida

+81-3-4550-8660

ryohei.yoshida@spglobal.com

Financial institutions



Gavin Gunning

+61-3-9631-2092

gavin.gunning@spglobal.com



Geeta Chugh

+91-2233421910

geeta.chugh@spglobal.com

Gaming



Aras Poon

+852-2532-8069

aras.poon@spglobal.com

Analytical Contacts

Insurance



Wenwen Chen

+852-2533-3559

wenwen.chen@spglobal.com

Media and entertainment



Clifford Kurz, CFA

+852-2533-3534

clifford.kurz@spglobal.com

Metals and mining



Annie Ao

+852-9223-3619

annie.ao@spglobal.com

Oil and gas



Pauline Tang

+65-6239-6390

pauline.tang@spglobal.com

Public finance



Kensuke Sugihara

+81-3-4550-8475

kensuke.sugihara@spglobal.com

Real estate development



Edward Chan

+852-2533-3539

edward.chan@spglobal.com

REITs



Simon Wong

+65-6539-6336

simon.wong@spglobal.com

Retail



Sandy Lim, CFA

+852-2533-3544

sandy.lim@spglobal.com

Analytical Contacts

Sovereign



KimEng Tan

+65-6239-6350

kimeng.tan@spglobal.com

Structured Finance



Narelle Coneybeare

+61-2-9255-9838

narelle.coneybeare@spglobal.com

Technology



Cathy Lai

+852-2533-3569

cathy.lai@spglobal.com



Kei Ishikawa

+81-3-4550-8769

kei.ishikawa@spglobal.com

Telecommunications



Yijing Ng

+65-6216-1170

yijing.ng@spglobal.com

Transportation cyclical



Susan Chen

+886-2-2175-6817

susan.chen@spglobal.com

Transportation infrastructure



Laura Li, CFA

+852-2533-3583

laura.li@spglobal.com

Utilities



Apple Li

+852-2533-3512

apple.li@spglobal.com

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