S&P Global
Ratings

Corporate Top Trends Update

Asia-Pacific Credit Outlook 2022

Glimpses Of Blue Sky Despite Omicron And Cost Inflation

Feb. 14, 2022

This report does not constitute a rating action

Corporate Top Trends Update

Asia-Pacific

Limited Credit Upside Amid Slowing Revenue Growth And Persistent Funding Volatility

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Key Takeaways

- Moderating revenue growth and cost inflation limit broad-based upside for credit ratings in 2022, which remain tilted to the downside.
- Sector and country differentiation is deepening in Asia-Pacific. Revenue, profits, and credit quality are stabilizing or moderately improving for rated Indian and Korean issuers, but still sluggish in Indonesia, Australia, and Japan.
- Investor sentiment is likely to stay volatile given evolving COVID-19 variants and rising interest rates, which could exacerbate currency volatility and complicate refinancing initiatives.

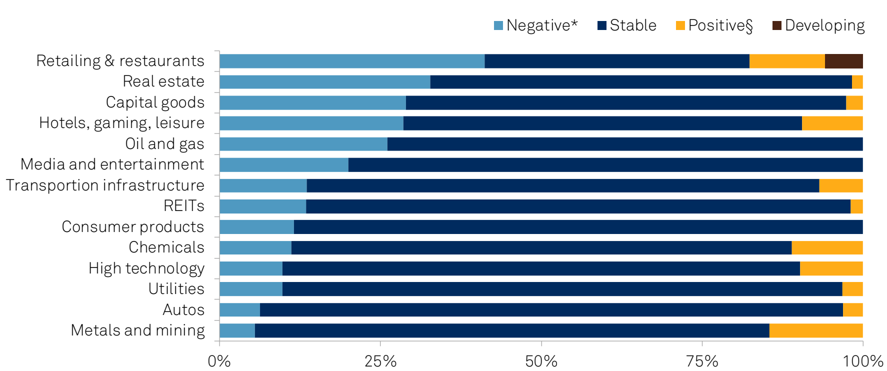
The credit trajectory of rated Asian companies remains tilted to the downside. We still have negative outlooks on about one in six companies that we rate. This proportion has dropped from about twice the number six months ago. But the credit stabilization during the first half of 2021 had gradually reversed during the second half. This was amid volatile funding conditions for weaker-rated issuers in China (especially real estate developers) and Southeast Asia.

The share of weaker-rated companies among those that we rate in the Asia-Pacific should remain at a near-all-time high in 2022. We rate nearly one in 10 companies at the 'B' rating level and below, and nearly one in 20 at the 'B-' rating level and below. We anticipate additional defaults in the real estate and mobility-related sectors (cyclical transportation, hospitality, and discretionary retail) in 2022.

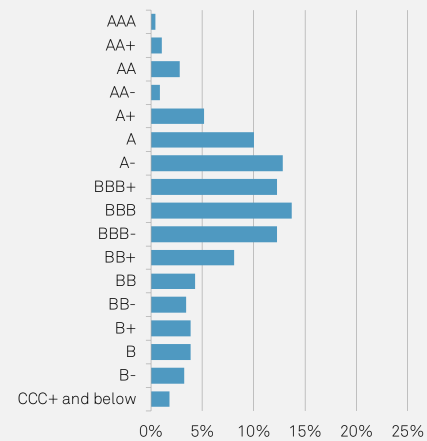
Moderating revenue growth and cost inflation will limit broad-based rating upside in 2022. We see limited upside for credit conditions in 2022 for the companies we rate in the Asia-Pacific. In our estimation, revenue and profits will be flat or rise by mid-single digits in 2022 and 2023 for nearly 80% of the companies we rate. This is a sharp slowdown from the fairly widespread 5%-10% growth we saw in 2021.

In our base case, 2022 margins will be eroded for about half our rated Asian companies by cost inflation (especially energy, commodities, raw materials, and transportation). At the same time, cost pass-through is more difficult to achieve in Asia-Pacific than in the U.S. and Europe. This is given an uneven economic recovery, subdued consumer sentiment, and overcapacity in some sectors (building materials, construction). Finally, rated companies are resuming their capital spending or acquisitions in Indonesia, Korea, Japan, and selected sectors in China after two years of spending discipline. This will limit free cash flow generation and balance-sheet improvements.

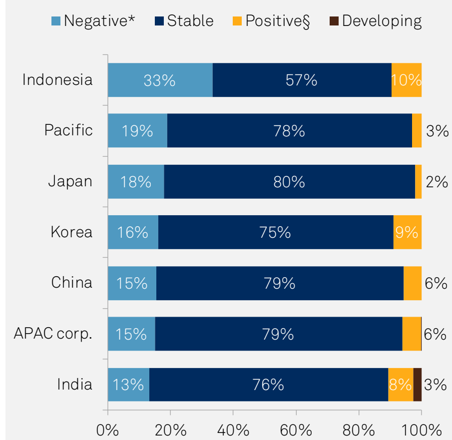
Sector and country differentiation is deepening. As of end-2021, average credit metrics had recovered to pre-COVID-19 levels for about half of the sectors that we cover. That either reflected resilience to the pandemic (essential consumer and retail, telecommunications) or fast-improving demand and pricing conditions (technology, metals, and mining).



Ratings Distribution



Outlook Distribution



Median Item Growth

Asia-Pacific Rated Universe

	2022f	2023f
GDP growth (%) YOY	5.1%	4.6%
Revenue change (%) YOY	Flat to +5%	Flat to +5%
EBITDA change (%) YOY	Flat to +5%	Flat to +5%
Capex change (%) YOY	Flat	Flat

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. Corporate rating movements include all rating and/or outlook changes between Jan. 1, 2021 and Jan. 31, 2022. f--Forecast.

Corporate Top Trends Update

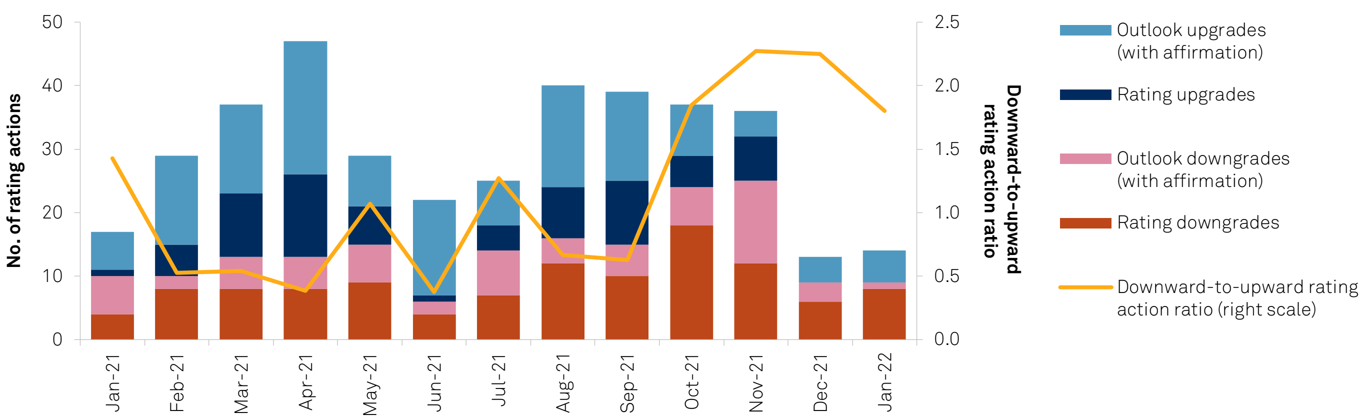
Capital goods, chemicals, oil and gas, and REITs are likely to recover further in 2022, most notably oil and gas amid sustained higher pricing. In contrast, the recovery is still likely to be some quarters away for mobility-related sectors, especially travel and entertainment-related sectors. We now see a recovery for these sectors in 2023. That is six to 12 months later than we originally anticipated, given developing omicron variants and a more sluggish recovery in 2021 than we had thought. A recovery for airlines and airports is also unlikely before 2024. This will reflect persistent restrictions on travel mobility.

Country-wise, we see more stable credit quality for India and Korea because of steady demand and positive free cash flow for the majority of the issuers that we rate there. Conversely, the credit recovery is likely to be slower in Indonesia amid a slow pickup in profits, still-volatile consumer confidence, a resumption of capital spending, and the negative outlook on the long-term rating on the sovereign which influences the outlook on rated state-owned companies.

Funding will remain selective throughout 2022. As in 2021, liquidity and funding are likely to stay major differentiators of credit quality in Asia-Pacific. Two main concerns will keep investor sentiment volatile in 2022. The first is uncertainties linked to the impact of the omicron variant on demand and operating performances. The second is rising interest rates and the impact this could have on currency volatility and by extension, refinancing, especially in Southeast Asia. Indonesian issuers in the real estate, manufacturing, and consumer sectors could be the most affected.

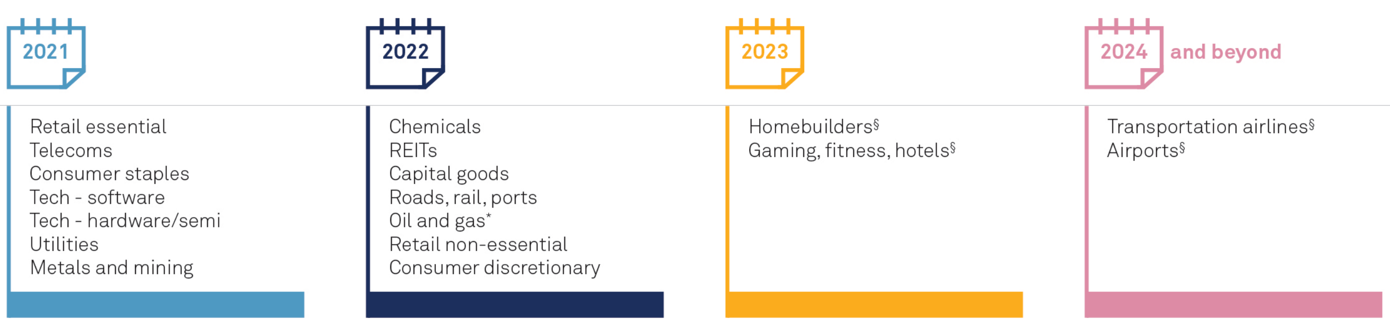
Combined, the above will likely create only small funding windows for the weaker issuers, especially those in the 'B' rating category and below needing to refinance debts maturing within the next 18 months. Funding by domestic banks is also likely to stay selective throughout the rest of the year. Our financial institutions analysts expect funding conditions to improve further this year, though banks are likely to remain cautious with respect to lending to sectors that are affected by pandemic, with nonperforming loans only reducing slowly in Malaysia, Thailand and Indonesia.

Negative Rating Actions Have Picked Up In The Second Half Of 2021, Especially In China



Timeframe Of Recovery Of (Run Rate) Rated Corporate Credit Metrics To 2019 Levels

Asia-Pacific



*Sectors whose average credit metrics we expect will recover sooner than indicated in our January 2021 publication. §Sectors whose average credit metrics we expect will recover later than indicated in our January 2021 publication. Source: S&P Global Ratings.

Australia & New Zealand

Omicron And Rising Costs To Slow The Recovery In 2022

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Key Takeaways

- We expect omicron outbreaks and supply-chain disruptions to put pressure on the earnings outlook of certain sectors, particularly international travel, retail, and leisure and gaming.
- Elevated commodity prices will add to cost pressures, but they should continue to bolster earnings for miners and help fund their growth and some ESG-related investments.
- We anticipate median EBITDA growth of 0%-10% in 2022, gradually building on 2021 levels and supporting generally stable credit outlooks.
- Omicron outbreaks and supply-chain pressures temper our anticipation of a shift to a more positive rating stance.

Omicron and rising costs to temper the earnings recovery. Cost pressures and labor-market tightness in some sectors could put pressure on monetary policies this year. However, countervailing forces from dampened consumer demand and activities may offset this. The recovery is likely to be patchy in sectors and uneven in pace. Due to the rapid and wide spread of the omicron COVID-19 variant, some sectors now face much more uncertainty in 2022 than we anticipated. In particular, the recovery for non-essential retail, tourism, and leisure-related activities and gaming could be protracted.

Sector performance will be mixed as some sectors strain to cope with border and trade issues as well as structural change. We expect the discretionary retail sector to continue to suffer from lower consumer patronage and supply-chain challenges as omicron continues to spread. Airports face a muted recovery in 2022, led by domestic travel. While we expect domestic passengers to return to 60%-80% of pre-COVID levels in 2022, international passengers may only return to 10%-30%. We don't expect international travel to recover fully from the impact of COVID until at least 2024.

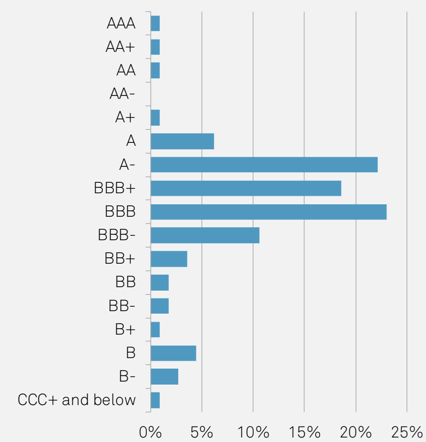
The potential for structural change resulting from (or exacerbated by) COVID-19 remains an issue for many sectors. REITs remain a sector exposed to structural change from COVID-induced online retail and work-from-home trends. However, the decline in office demand could now be somewhat less than we initially feared, particularly for prime CBD assets, as space users weigh the benefits of office collaboration against rent savings. Elsewhere, generally robust commodity markets should continue to bolster earnings for miners and help fund their growth and some ESG-related investments.

Supply-chain constraints will likely persist. Constraints and delays at ports due to COVID-related processing issues will add to lags in the supply chain. Over the next three to six months, these lags could be exacerbated by land-side distribution disruptions as the domestic logistics chain struggles with COVID-related staff shortages. Supply-chain issues are likely to lead to higher working-capital investments as companies act to ensure supply. We expect pressure on consumer prices and/or margins as companies look to pass through higher costs, particularly as hedging and other protections roll off progressively.

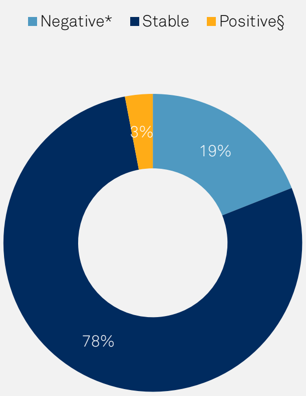
Labor shortages will affect many sectors. Temporary labor shortages due to omicron early in the year will affect the ability of many industries to operate at full capacity. The mining sector will likely face a lack of skilled workers due to border restrictions, COVID-related staff isolation, and demand for workers at major construction projects in the eastern states. A relaxation of isolation rules for workers in essential and key sectors should provide respite and assist businesses return to more normalized operational capacity.

Rating outlooks are predominantly stable, but some negative outlooks persist. About 78% of our rated portfolio has stable outlooks. This follows numerous outlook revisions during the second half of 2021. The rating outlook bias is less negative than in early 2021. However, omicron outbreaks and supply-chain pressures have tempered our earlier expectation of a shift to a more positive rating stance. Negative outlooks are dominated by airports and include a small number of REITs. Most airports remain on negative outlooks due to the prolonged recovery that we are now expecting for international traffic.

Ratings Distribution



Outlook Distribution



Median Item Growth

Australia and New Zealand Rated Universe

	2022f	2023f
GDP growth (%) YOY - Australia	3.5%	2.8%
GDP growth (%) YOY - New Zealand	2.90%	2.90%
Revenue change (%) YOY	Flat to +5%	Flat to +5%
EBITDA change (%) YOY	Flat to +5%	Flat to +5%
Capex change (%) YOY	Flat to +10%	Flat to +5%

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. f--Forecast.

Corporate Top Trends Update

China

Stability Focus May Moderate But Not Reverse Rising Risks

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Key Takeaways

- Slower economic growth will weigh on China corporates in 2022.
- We expect modest debt growth and lower revenue growth.
- Policy risks will stay high in 2022, but the focus on stability is likely to moderate rising corporate risks.
- Default risk remains elevated with record-high offshore maturity wall.

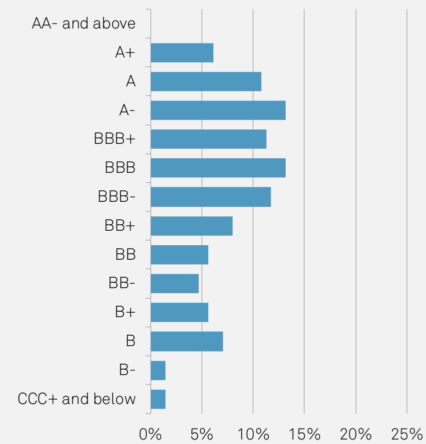
Slowing growth prevents further deleveraging for Chinese corporates. Overall, we expect Chinese corporate issuers' leverage to remain stable in 2022, but a return to pre-pandemic levels is likely to take six to nine months longer than we anticipated. Margins in the manufacturing sector are likely to slowly improve as our economists expect the gap between the Consumer Price Index and the Producer Price Index to narrow after peaking in the second half of 2021. However, consumption is still fragile under the ongoing pandemic, which will likely cap earning upside. For upstream sectors, some issuers' leverage could edge up again in 2022, assuming commodity prices moderate from high levels and capital outlays on decarbonization remain substantial. We forecast absolute debt levels to grow in the low single digits across our rated Chinese corporates in 2022, given slowing economic demand and investment appetite.

Negative bias and bifurcation indicate significant downside risk. A net negative credit bias remains for Chinese corporates in 2022. Nearly 15% of ratings are on negative outlook or CreditWatch negative, versus 6% on the positive side. Bifurcation between investment grade, where only 7% are on negative outlook or watch, and speculative grade, where the proportion of ratings on negative outlook or watch is more than four times higher at 32%, flags significant downside risks at the lower end of the credit spectrum. Net rating actions on Chinese corporates plunged deeply into negative territory in the fourth quarter of last year. This was largely due to deteriorating credit conditions in the property sector. In our view, fundamentals, liquidity, and market access will remain challenging for Chinese developers in 2022.

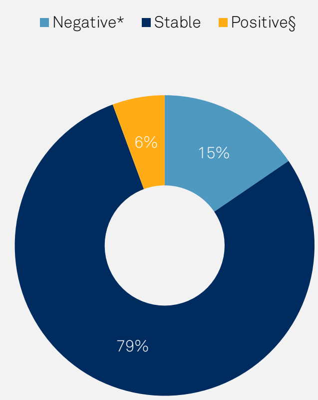
Policy focus on stability may help the strong but not the weak. Regulators have examined the impact of existing tightening policies at the end of last year. The 2021 Central Economic Work Conference in December outlined a shift to stability as the government's key objective in 2022. They also discussed how to improve policy coordination to avoid material damage to the economy and the society at large. We do not expect the government to reverse course on its long-term objectives such as curbing debt risks, decarbonization, and common prosperity. However, there will be greater emphasis on balancing the need for reform with the preservation of economic and social stability. This shift will likely benefit stronger companies more. As a result, differences in credit quality may widen further, and weaker corporates may continue to face elevated default risks.

Offshore market is facing record high maturity wall in 2022. Offshore maturities will reach a record high of US$130 billion in 2022. Default risks will remain elevated for property developers so long as weak sales, tight liquidity and inaccessible markets persist. While local government financing vehicles (LGFVs) face fewer risks in this regard, local budget deficits and central debt directives are pressuring their financial flexibility and driving further bifurcation as lenders and investors favor the strong and shun the weak, sowing the seeds of distress among the latter in 2022.

Ratings Distribution



Outlook Distribution



Median Item Growth

China Rated Universe

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. f--Forecast.

Corporate Top Trends Update

	2022f	2023f
GDP growth (%) YOY	4.9%	4.9%
Revenue change (%) YOY	Flat to +5%	Flat to +5%
EBITDA change (%) YOY	Flat to +5%	Flat to +5%
Capex change (%) YOY	Flat	Flat

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LGFV Sector Outlook:

Double Whammy From Falling Land Sales And Hidden-Debt Resolution

Broad credit deterioration is unlikely over the next 12-18 months. The vast majority of LGFVs are still backed by a largely stable refinancing environment. Economic stability is a priority in 2022 and policymakers are striving to shore up infrastructure investments. LGFVs are still tasked with undertaking key infrastructure projects, even though their future investments are likely to shift toward more visible project returns and more manageable spending.

Nevertheless, short-term onshore refinancing needs remain elevated due to growing short-term financing in the sector. We believe a select few could fall into distress and liquidity crises, but the risk will be more acute for lower-level, non-core LGFVs whose government owners have relatively constrained financial resources.

Tightened financing regulations are forcing effective hidden-debt resolution. Capital market watchdogs and lenders are tightening regulations over the LGFV sector. Circular 15, a directive on resolving hidden debt issued to banks and insurers, will make it harder to get bank financing for unrestricted use. Capital markets are also tightening access of weaker LGFVs through color-coding by city (based on leverage ratios) and other types of issuer risk categorizations.

Stricter government financial discipline points to more selective support to LGFVs, which will become more self-reliant for new market-based investments over a longer term.

A long way to go for LGFV business transformation, particularly the lower-level cluster. We expect the transition will be tough. This is because, for a long time, LGFVs have been focused on infrastructure projects that generate broader social and economic returns rather than just commercial profitability. Lower-level LGFVs have a high portion of revenue from the traditional land development-related businesses. Sluggish land sales, mostly in less developed regions, could strain LGFVs' already weak operating cash flows and push their business transformation toward projects with viable cash flows that can cover costs. Limited alternatives or assets to provide support among lower-level governments present even more hurdles for LGFVs in those localities.

Credit polarization will continue after becoming more distinct in 2021. Lenders are increasingly favoring LGFVs controlled by higher-tiered governments and with stronger financial strength. Refinancing pressure will be particularly high for several smaller financing platforms owned by lower-tiered governments, such as districts, counties, or smaller cities from less developed regions. They face higher borrowing costs, and some must ramp up short-term financing to stay afloat.

Our ratings on LGFVs are largely on a stable outlook, despite some facing headwinds of weakening government credit profiles and tighter funding conditions. This mainly reflects our view of the overall stable credit profile of their local government owners.

Corporate Top Trends Update

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Real Estate Sector Outlook:

Weakening sales will weigh on credit quality as contagion continues to spread from default headlines. We forecast a 10% drop in residential sales in 2022, with more of the pain seen in the first half due to high base effects and weak buyer sentiment. If the drop in sales is larger than our base case, and refinancing markets remained tight or inaccessible, then downgrade momentum is likely to continue, even for the relatively higher rated names.

Short-term maturities amplify liquidity risk. The sector faces a daunting bond maturity wall at US$40 billion (54% offshore) over the first half of 2022, of which US$19 billion (58% offshore) comes due in the first quarter. Even excluding the upcoming obligations of major developers China Evergrande Group and Kaisa Group Holdings Ltd. (both unrated), the maturity wall remains significant at US$16 billion (56% offshore) due in the first quarter of 2022. There are also questions about how much cash developers can really mobilize because part of the cash they report on their balance sheet is trapped in either the escrow account or project companies. Real estate developers may not be able to use such trapped cash for their own debt servicing.

Restrictive policies appear to be easing, but the marginal loosening actions so far may not be enough to reverse the ongoing crisis. Over the past months, regulators began finetuning policies to cushion any impact and prevent overtightening. But we don't expect a policy U-turn, as tightening the growth of the property market is a part of broader efforts to reshape China's economic development to a more sustainable model. That said, policy still has a key role to play. Other than whether there will be any loosening on the access of cash to escrow account, any supportive policy to make it easier for developers to sell their projects can also make a difference. That may include encouraging asset managers or stronger players to acquire projects. In the absence of further easing policy to stabilize the situation, defaults will continue to rise. This will weaken home buyer sentiment as sluggish sales, tight liquidity and inaccessible bond markets persist in the face of cautious lenders and daunting maturity walls. Developers' proactive financial management is paramount to ensure survival in this crisis. We believe asset disposals and the ability to access other financing channels will be critical to avoiding credit events in 2022.

India

Accelerating Capex The Key Risk Amid Better Credit Profiles

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Key Takeaways

- Continued free cash flow generation, more prudent financial policies, and a favorable operating outlook will strengthen credit profiles for rated Indian companies in 2022.
- Leverage in the infrastructure sector will remain elevated amid increasing capital expenditure (capex), despite sustained revenue and earnings growth.
- Airports face further risks in traffic from a reemergence of local restrictions and delayed international travel.

Credit profiles of corporates will likely strengthen further. On average, we project absolute debt at rated companies will decline 5%-7% in each of 2022 and 2023. About 40% of our rated entities should also reduce at least 20% of their debt between 2020 and 2022. This would be the lowest level in five years, thanks to a combination of management intentions to reduce debt, limited capex, and a persistently favorable operating outlook.

Several rated companies, including Reliance Industries Ltd. and Tata Group entities, have over the past couple of years announced their intention to cut debt markedly. The focus on debt reduction has become more broad-based now, to include companies outside our rated portfolio. The management intent has resulted in several equity and asset-monetization transactions over the past 12-18 months (Reliance Industries Ltd., Tata Steel Ltd., Bharti Airtel Ltd., Glenmark Pharmaceuticals Ltd., Tata Motors Ltd., among others). Debt reduction in 2022 will be largely driven by free cash flow generation as growth in operating cash flow more than offsets any increase in capex.

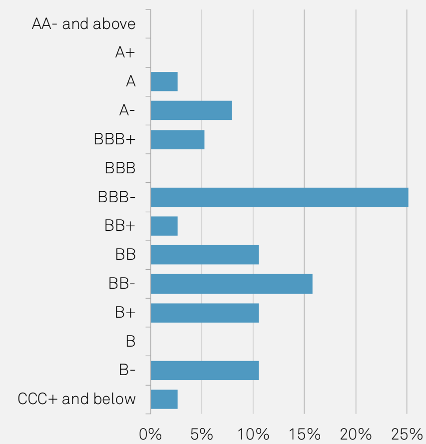
We expect nine rated companies out of 10 to generate positive free operating cash flow in fiscal 2023 ending March 31. Capex is likely to be only modestly higher on average than in 2021, since it had already jumped by about 25% year on year in 2021, led by commodity producers. Current capex is on par with the levels seen in 2018 and 2019, when many companies aggressively expanded capacity. However, operating cash flow is now much stronger, with EBITDA on average about 40% higher in fiscals 2022 and 2023 than in 2018 and 2019.

Infrastructure entities should keep reporting negative free operating cash flow and high leverage. Infrastructure entities continue to have large capex plans, partly to meet energy-transition goals. They are likely to channel their improving operating cash flow to investment needs. Reflecting this, their free operating cash flow is likely to be negative. We believe debt to EBITDA ratios for traditional utilities will remain above 5x. Renewable companies will likely pursue growth actively and maintain even higher leverage. Leverage, however, will likely moderate from 2021 levels as commissioned new capacity starts contributing to earnings.

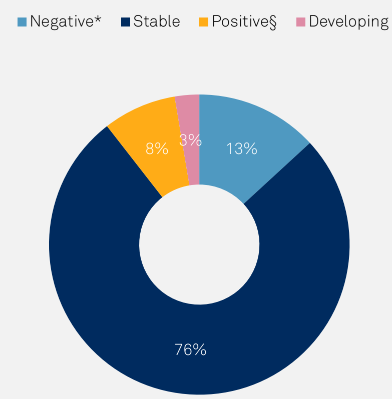
We expect slowing earnings growth in 2022. We forecast EBITDA for corporates will increase by mid to high single digits on average, from a high base of about 25% in 2022 and 23% in 2021. The high growth in 2020 and 2021 was commodity-driven, with commodity companies almost doubling their annual EBITDA between 2019 and 2021.

Excluding commodity companies, we forecast EBITDA growth will be above average, at about 10%in fiscal 2023. We expect regulated utilities to sustain growth in revenue and earnings, in line with their capitalization of new projects. We expect unit demand to grow about 5% in the Indian power sector, broadly in line with economic growth. Ports are likely to benefit from robust demand and port congestion in China. Airports may underperform our expectation of a return to 90% of pre-COVID passenger traffic by 2023 in the event of further restrictions; this may put further pressure on ratings. India's GDP growth of 7.8% that we forecast will support revenue and earnings.

Ratings Distribution



Outlook Distribution



Median Item Growth

India Rated Universe

	Fiscal 2022f	Fiscal 2023f
GDP growth (%) YOY	7.8%	6.0%
Revenue change (%) YOY	+5% to +15%	+5% to +10%
EBITDA change (%) YOY	+5% to +15%	+5% to +10%
Capex change (%) YOY	Flat	Flat

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. Fiscal year ended March 31, 2023, and March 31, 2024. f--Forecast.

Corporate Top Trends Update

Refinancing risk remains low but rising interest rates may cause funding challenges for weaker issuers. Domestic borrowing costs will likely rise in line with inflation and higher interest rates. Liquidity remains ample in U.S.-dollar bond markets for higher-rated and repeat issuers. The differentiation between investment-grade and high-yield credits continues, seemingly more in pricing than in access.

Corporates generally have adequate liquidity with no significant debt maturities, with the exception of some lower-rated entities. Prudent capital management and proactive refinancing have reduced issuers' refinancing needs in fiscal 2023. In the offshore bond market, only a US$1 billion bond due from a 'B'-rated entity requires monitoring. About US$2.5 billion of debt maturities are from entities rated 'BB'/'BBB', some of which have been refinanced already.

We see limited downside risks for credit profiles. Significant improvements in vaccination rates and a demonstrated policy of adopting local restrictions rather than nationwide lockdowns (as seen during the delta wave) limit risks of operational disruptions from renewed waves of COVID infections, in our view. Labor disruptions have also been less frequent than the last wave, allowing existing projects, including construction, to operate with limited interruptions. Supply constraints and wage inflation could hurt profit margins, but these are small risks given a broad-based improvement in earnings.

Besides, with strong demand conditions, companies are better able to pass input prices on to consumers. We also believe credit profiles have become more resilient to earnings downside than two to three years back, after massive debt reductions by most rated companies. A key credit risk is the potential for aggressive growth, including via acquisitions. A recent example is Tata Steel Ltd.'s acquisition of Neelachal Nigam Ispat Ltd. However, the acquisition is small enough compared with Tata Steel's expected operating cash flow. This should support continued deleveraging, though at a slower pace.

Corporate Top Trends Update

Indonesia

No Widespread Profit Recovery Amid Consumer Volatility

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Key Takeaways

- Revenue and profits are likely to diverge across sectors. Commodity-related sectors have largely recovered to pre-COVID-19 levels while the recovery is slower for domestic industries amid still-volatile consumer sentiment and the omicron wave.
- Credit risks have dropped, though default risk remains for select issuers in the commodities, retailing, light manufacturing, and state-owned sectors facing liquidity and refinancing requirements in 2022. Nearly 33% of our rated Indonesian entities currently have negative outlooks.
- Potential currency volatility features high in our list of drivers of credit volatility amid impending Fed funds rate hikes in 2022.
- Domestic and foreign capital markets are likely to remain very selective through 2022, with short-lived fund-raising windows likely for weaker issuers.

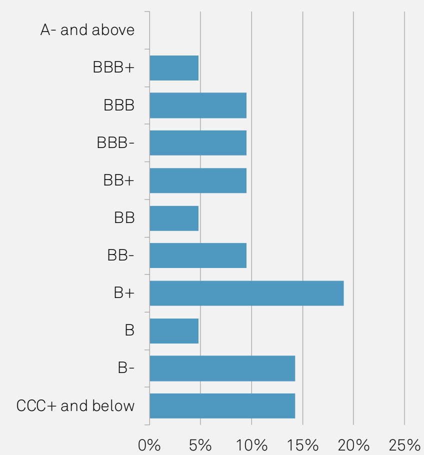
We see few catalysts for an accelerated recovery in 2022. The recovery of the Indonesian corporate sector is likely to be uneven in 2022. We observe a growing wedge between commodity producers and domestic-focused sectors. The profitability and balance sheets of the former have largely recovered to pre-COVID 19 levels, because of rising prices. For domestic-focused sectors, the recovery could stretch to late 2022, six to 12 months behind the other countries in Asia. Consumer surveys from Bank Indonesia suggest consumer confidence is at a multi-year high, at nearly 120 points (from below 80 in August 2021). That said, survey results have been extremely volatile over the past 12 months, without the omicron variant factored in yet. Monthly retail sales growth remains volatile and has lost the momentum it developed during the first half of 2021. These macro data suggest that a sustainable recovery in consumer sentiment remains six to 12 months away.

We estimate the essential retail and consumer products, commodity, electricity, and telecom sectors will operate at or close to pre-COVID-19 levels in 2022. Consumer and retail discretionary and light manufacturing are unlikely to recover to pre-COVID-19 levels until toward the end of 2022. Despite some renewed momentum throughout 2021, the construction, real estate, and cyclical transportation sectors are still unlikely to recover before 2023. This is given the sharp revenue and profit drops in the sectors since 2019.

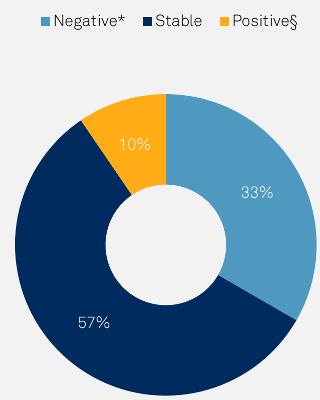
Credit risks have eased from six months ago. Rated Indonesian corporates enter 2022 with the highest negative rating bias in the region (nearly 33% of outstanding ratings on negative outlooks or CreditWatch Negative). That bias has, however, nearly halved from the nearly 60% six months ago as a few weaker-rated issuers could refinance maturing debts in 2021. Operating conditions have also improved. This was especially the case in the commodity space. Tight liquidity or refinancing risk situations represent about one-half of the negative outlooks, followed by sovereign risks linked to the negative outlook on the sovereign rating of Indonesia (about one-third) and leverage. Despite moderately recovering revenue and profits (about 5% on average for rated companies in 2022 vs. 2021), more liquidity or refinancing-driven defaults are likely in the rated space (the rated Indonesian corporate sector has the weakest rating distribution in the Asia-Pacific, with nearly 30% of the ratings in the 'B-' and 'CCC' categories).

We continue to expect the unrated state-owned enterprise (SOE) sector to face significant hurdles in 2022. This is because the government is unlikely to shift its policy of highly selective financial support in 2022 amid fiscal constraints. This could result in more debt restructurings in the sector, which has seen one of the fastest debt accumulations among corporate entities in Indonesia.

Ratings Distribution



Outlook Distribution



Median Item Growth

Indonesia Rated Universe

	2022f	2023f
GDP growth (%) YOY	5.6%	4.8%
Revenue change (%) YOY	Flat to +5%	Flat to +5%
EBITDA change (%) YOY	Flat to +5%	Flat to +5%
Capex change (%) YOY	+5% to +15%	Flat to +5%

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. f--Forecast.

Funding and currency volatility is a watch point amid normalizing Fed rates. Volatility in the Indonesian rupiah features high on our list of drivers of credit volatility for the rated Indonesian sector amid potential Fed funds rate hikes in 2022. That issue took a back seat at the beginning of COVID-19 when all eyes were on the cash flow and funding impact of the virus. Numerous Indonesian issuers remain exposed to foreign-currency fluctuations, especially those with domestic operations in the real estate, consumer, and light manufacturing sectors. Some issuers have reduced their exposure to the U.S.-dollar bond market or hedged a portion of their debt service. But they often remain dependent on foreign-currency bank loans or imperfect hedging when the currency depreciates rapidly. While only about US$2.5 billion of rated debt will mature in 2022, the bulk is from state-owned companies. The maturity wall will grow rapidly in 2023 (about US$4 billion) and 2024 (about US$5.5 billion). At the same time, bank funding is likely to stay tight and highly selective throughout 2022 amid still high nonperforming loans at domestic banks. Capital markets are also very selective. Any funding window for weaker-rated issuers in the 'B' category is likely to stay short-lived through 2022.

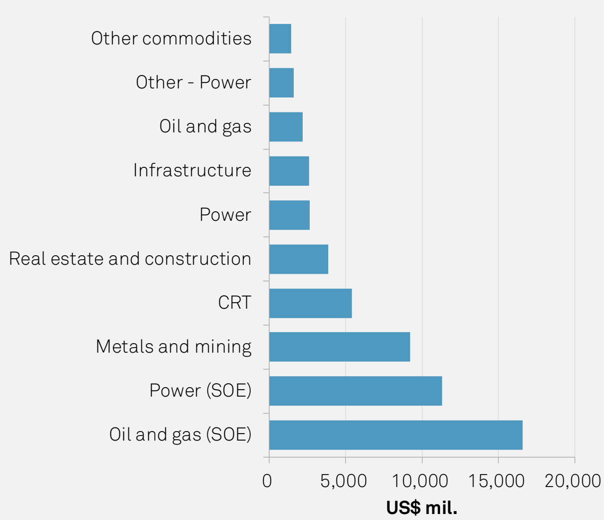
ESG Considerations Will Become Increasingly Relevant For Indonesian Issuers

We expect more scrutiny of "E" (environmental) and "S" (social) considerations than a few years ago from foreign capital providers. The metals, mining, energy, agribusiness, and electricity sectors have been major issuers of foreign bonds in Indonesia, with more than US$43 billion in bonds outstanding out of about US$60 billion foreign currency bonds raised by Indonesian issuers. (About half of these bonds are from state-owned companies PT Pertamina (Persero) and PT Perusahaan Listrik Negara (Persero) (PT PLN)). These sectors are more exposed to medium-term environmental or social risks and their maturity wall will grow over the next two years, with about US$3 billion due in 2023 and about US$4.5 billion in 2024 (Chart 1). Very few issuers in these sectors generate sufficiently positive discretionary cash flow, have enough cash to repay their maturing debt, or can offset (in the eyes of capital providers) their higher environmental risks with an important social role (such as Pertamina and PT PLN). Profitable operations have also reduced the incentive or urgency for numerous mining (especially coal) and palm-oil companies to shift their long-term business models and reduce their environmental footprint.

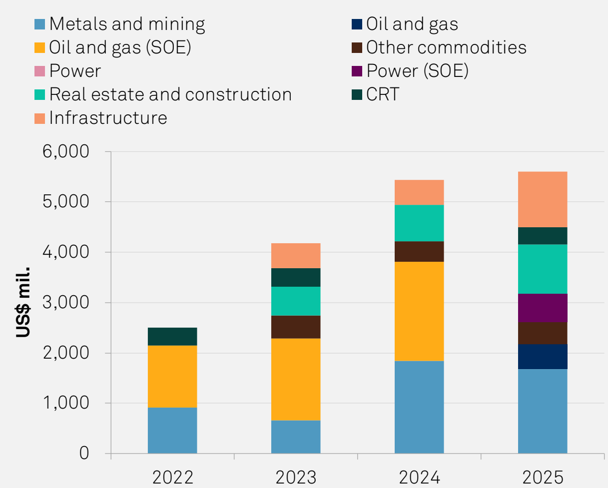
As funding and refinancing requirements grow, we don't think Indonesian banks can, by themselves, take over the funding requirements of these more E-exposed sectors. Indonesian banks are relatively small compared with the often high capital intensity of those sectors. They also face limits on single-name lending. These sectors will therefore see narrowing funding channels and likely rising financing costs.

Governance has been and is likely to remain a focus of credit analysis for Indonesian issuers and a key differentiator of Indonesian borrowers. Corporate structures are often complex with numerous corporate layers and private entities and related-party transactions. Disclosures on these are typically limited. Frequent family ownership reduces board independence compared with companies in countries with stronger disclosure and governance standards. Sometimes aggressive asset and debt growth (especially for state-owned companies) and numerous defaults or debt restructurings also shed a light on the weaker oversight and governance standards of numerous highly indebted state-owned companies across sectors.

Outstanding Foreign Currency Bonds From Indonesian Issuers



U.S.-Dollar Debt Maturity Profile Of Indonesian Issuers



Note: Outstanding foreign currency bonds issued by Indonesian companies and their maturity profile between 2022 and 2025. Data includes rated and unrated bonds by S&P Global Ratings. CRT--Consumer, Retailing, Telecoms. SOE--State-Owned Entities. 'Other commodities' include agribusiness and palm oil. 'Other power' includes geothermal. The debt maturity profile excludes outstanding bonds that have defaulted or that are being restructured. Source: S&P Global Ratings computations from company financial statements, Bloomberg.

Corporate Top Trends Update

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Indonesia Property Sector Outlook: Improved Sales Yet to Translate To Better Credit Quality

Marketing sales growth will likely moderate in 2022, following a strong rebound in 2021. Several factors will support developers' sales in 2022. These include continued end-user demand for affordable landed homes, low mortgage rates, and value-added tax (VAT) reduction extension till mid-2022, as well as higher land sales as economic activities recover. A gradual tapering of favorable policies (for instance, VAT reduction has been halved for the first six months of 2022) and modest increases in mortgage rates from the historical low could temper the sales growth momentum. We estimate that aggregate sales growth for the four large Indonesia developers that we track will moderate to about 6.5% in 2022, following a strong rebound of 38% in 2021. Land sales showed early signs of a recovery in 2021 and we expect a further pick-up as economic activities recover with increasing vaccination rates. Growth is also dependent on the timing of a meaningful resumption of travel between Indonesia and North Asia.

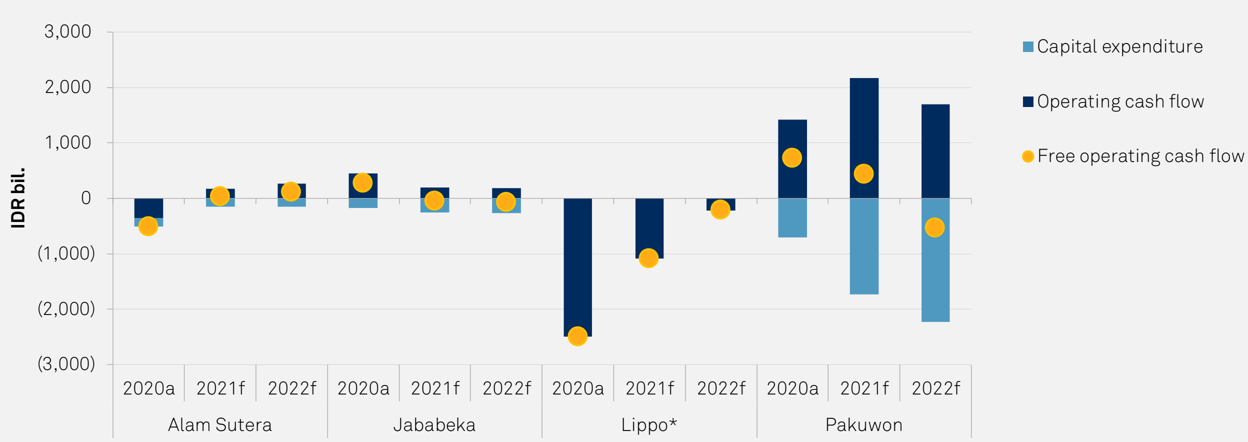
Credit quality is stabilizing but is unlikely to improve to pre-pandemic levels before 2023. Despite moderate sales growth in 2022, developers' free operating cash flow is unlikely to improve meaningfully. This is because of the need for higher construction and discretionary spending than in 2021. Faster cash collection from mortgage sales in 2021 means there will be less residual cash to be collected in 2022. This leaves minimal surplus cash available to reduce outstanding debt, which we project will remain flat in 2022 for the four developers we rated in 2021.

In addition, the higher sales in 2021 and 2022 will only translate into revenue and EBITDA over the next 12-24 months. This is because developers can only recognize revenue upon the transfer of completed units. Thus, higher sales will not manifest in ratio improvements before 2023. We expect the leverage of most Indonesia developers to stay high, with three out of four developers that we rated in 2021 maintaining a debt-to-EBITDA ratio of more than 5.0x through 2023. EBITDA interest coverage ratio will likely stay below pre-pandemic levels. Given the negative discretionary cash flow and high leverage, we don't see a significant positive rating migration for the sector over the next six to 12 months.

Refinancing risk is limited over the next 18 months. Near-term liquidity stress is muted, given the immaterial debt maturities in 2022. Jababeka is the only developer we rate that is likely to seek refinancing for its US$300 million notes due October 2023 in 2022. This limited maturity wall is a positive because we believe funding conditions will stay very selective for leveraged issuers in Indonesia. Developers remain highly dependent on foreign-currency capital markets. Although they have attempted to diversify their funding channels and deepen banking relationships domestically, most bank loans are below Indonesian rupiah 1 trillion or on a short-term basis. The debt maturity profile increases in 2023 and 2024, leaving more time for marketing sales in the sector to recover. But selective funding could persist into 2023, which could lead to rating actions on developers at the 'B-' rating level.

Operating Cash Flows Have Mostly Strengthened While Free Operating Cash Flows Remain Thin

Developers' cash flow forecast



*Lippo's cash flow generated at the holding company level excluding one off events. Operating cash flow includes cash interest paid. Bil.--Billion. IDR--Indonesian rupiah. a--Actual. f--Forecast. Source: Company's report, S&P Global Ratings.

Corporate Top Trends Update

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Commodities Have Rebounded Rapidly, Yet Regulatory Uncertainty In Indonesia Is Likely To Persist In 2022

Indonesian commodities will likely benefit from a robust price environment in 2022. Market conditions in 2022 should continue to yield healthy profits and cash flow for the oil and gas, metals, and mining sectors. This would support shareholder returns, growth capital expenditure (capex), and acquisitions. This comes after commodity prices largely remained buoyant in 2021, bolstered by strong demand from an economic recovery. Favorable demand and pricing conditions have created robust earnings for Indonesia's oil and gas exploration and production (E&P) sector, miners and metal producers. This has enabled miners such as PT Aneka Tambang Tbk. (ANTAM), PT Bayan Resources Tbk., and Geo Energy Resources Ltd. to deleverage and reduce their debt burden. Concurrently, thermal coal miners such as Bayan and Geo have been able to capitalize on a strong pricing environment and reach net-cash positions. 2021 saw a flurry of rating upgrades in the sector. Both ANTAM (B+/Stable/--) and Geo Energy (B-/Stable/--) saw one-notch upgrades amid a favorable trading environment, while we revised our outlook to positive from stable for coal producer, PT Bayan Resources Tbk. (B+/Positive/--).

Debt is on the rise amid peaking capex in 2022-2023. After curtailing capex at the height of the pandemic during the 2020 price troughs, capex budgets have been restored. Capex increased by more than 70% in 2021 for Indonesian rated issuers (excluding SOEs). That said, capex has been generally restrained and commodity companies have largely maintained discipline in their use of debt. This increased rating headroom and led to positive rating actions for Indonesian rated issuers in 2021. Still, we expect capex to increase and debt to rise in 2022 because capex restoration has largely lagged the earnings recovery in 2021. Favorable prices have allowed ANTAM to increase spending on expanding its nickel pig iron downstream facilities. Bayan has inched closer to the completion of its 100km haul road and supporting infrastructure connecting its Tabang mine to the Mahakam River. And COVID-19-related border closures, skill shortages, and supply-chain delays have limited the pace and scope of capex deployment.

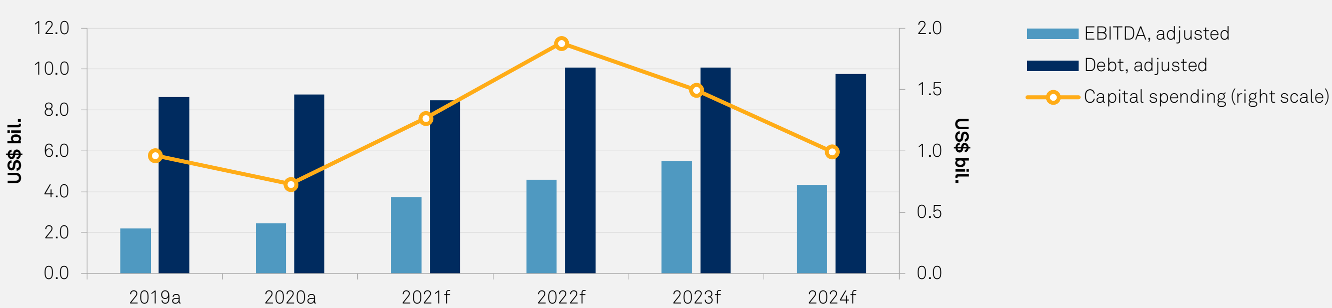
Meanwhile, M&A activity is on the rise as oil prices trade at seven-year highs. The rise in oil prices has supported the rapid earnings recovery for the oil and gas E&P sector and facilitated growth opportunities for domestic producers. With international oil companies reducing their presence in the region, domestic player PT Medco Energi Internasional Tbk. (B+/Negative/--) could bolster its portfolio via its acquisition of the Corridor Block from ConocoPhillips in South Sumatra. This is one of Indonesia's largest gas blocks. Active asset consolidation in the region's commodity sector will likely lead to rising debt in 2022. Executing growth objectives within the tolerances of credit ratings will thus be key considerations, particularly should rating headroom suffer a fall in prices or volatile commodity prices.

Rapidly changing mining regulations in Indonesia will increase market volatility and reduce the visibility of earnings. Regulatory uncertainty has long been a credit negative for the sector. Indonesia's recent export ban for coal and selected palm oil products underscores the regulatory risks. The government is revising the regulatory framework. It could move to a market-based pricing mechanism, whereby the gap between market prices and domestic market obligation prices is bridged by government cash levies. This could mean higher royalties or taxes imposed on miners or palm oil producers. The coal sector is already challenged in raising capital due to rising ESG concerns. Our base case for Indonesian coal producers does not consider additional levies or royalties beyond those of their respective mining licenses. As such, any material adverse changes in mining policies could weigh on the credit profiles of our rated coal miners, especially the higher-rated PT Bayan Resources Tbk. and Geo Energy.

The spotlight on the coal sector follows Indonesia's initial nickel export ban in 2014. The ban was reimposed in 2020, requiring miners to increase their downstream smelting capacity. The government could impose a new export tax on lower-grade nickel pig iron and ferronickel to encourage further investments in downstream processing capacity. Moreover, Indonesia seeks to be a global producer in the supply chain for electric-vehicle (EV) battery manufacturing and electrification. It has said it could halt bauxite and copper ore shipments, with the goal of producing all EV components onshore. Accordingly, producers such as ANTAM have committed to significant, often debt-funded capex. ANTAM aims to expand its downstream operations and increase vertical integration for its nickel and bauxite businesses.

Indonesian Commodities Have Recovered From COVID-19 Troughs, Now Capex And Debt Are On The Rise

Funding appetite will increase in 2022 as capex peaks



Selected aggregated adjusted financial items for all commodity and commodity-related companies rated by S&P Global Ratings in Indonesia. Data excludes PT Pertamina (Persero) and Mining Industry Indonesia. a--Actual. f—Forecast. Source: S&P Global Ratings computations from company financial statements.

Japan

Fragile Credit Stability Amid Remaining Challenges

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Key Takeaways

- The credit quality of Japan's corporate sector has stopped deteriorating and should stabilize with the help of cost reductions and a global economic recovery in 2022.
- A key obstacle that could delay a full earnings recovery is a resurgence of COVID-19. Supply chain issues could add earnings pressure through higher costs and production constraints.
- We focus on spending discipline and financial policies in our credit analysis heading into 2022. Financial soundness could deteriorate due to substantially increased capital expenditure in the pursuit of growth and large mergers and acquisitions (M&As).
- Liquidity and access to funding are likely to stay solid through 2022. Our rated Japanese companies mostly comprise investment-grade issuers with ample cash balances and well-established funding channels.

Credit quality is stabilizing but remains tilted to the downside. We have stable outlooks on about 80% of the long-term issuer credit ratings on the Japanese corporations we rate. This was up from 60% on Dec. 31, 2020. Corporate credit quality has stabilized since the beginning of 2021 as earnings rebounded. That said, credit stability remains fragile. This is given: 1) residual COVID-related demand headwinds in a number of sectors; 2) supply chain issues; and 3) increasing debt for capital spending and acquisitions. With elevated debt, we still have negative outlooks on nearly 18% of our rated Japanese companies. This is higher than the negative bias we have on companies in the Asia Pacific (about 15%).

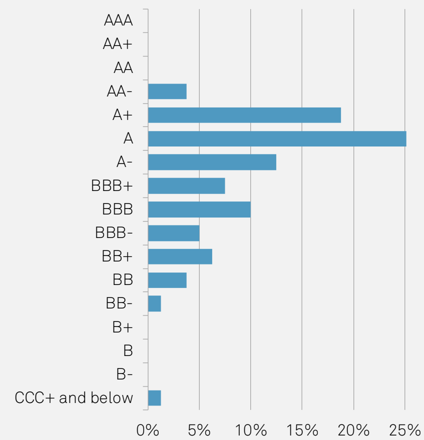
Recovery pace will vary across industries. The recovery of the railway sector could be slow, with rail passenger traffic rising to only 80%-90% of pre-pandemic levels in 2022. Furthermore, the prolonged impact of COVID-19 has deepened structural issues in the retail industry. What has changed includes an increase in online shopping, which has put pressure on the earnings of companies slow in responding to changing consumer behavior.

Conversely, we anticipate solid earnings growth for IT services. This is thanks to digitalization. In our estimation, average EBITDA margin will stay at about 12% in the sector. This is the highest over the past five years. In addition, we expect earnings increases for materials, electronics, and general trading and investment companies on the back of a global economic recovery. This should lead their earnings back to pre-COVID levels in fiscal 2021, ending March 31, 2022.

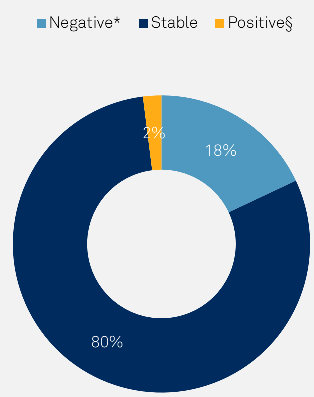
Supply chains and inflation will likely hamper the recoveries. Ocean freight rates are at their highest in 13 years. Rising prices of crude oil and resources threaten to increase costs for purchasers. Furthermore, many Japanese manufacturers, including automakers, may lose business opportunities from a decline in production capacity utilization and volume. Factors that could trigger this include further lockdowns across Asia, power shortages in China, and the global semiconductor shortage. In our view, the auto sector is more exposed to such issues, given the multi-layered global supply chain for vehicle production.

Spending discipline will be a key rating driver. We consider large strategic investments for growth a primary risk factor in our assessment of the credit quality of Japanese corporations. That is likely to linger well into 2022. In 2021, major growth investments caused negative rating actions on several companies. These included Tokyo Gas Co. Ltd., Seven & I Holdings Co. Ltd., Hitachi Ltd. and Rakuten Group Inc. Japanese companies are now placing greater emphasis on mitigating their financial burdens. Measures include divesting assets and businesses, increasing capital, issuing hybrid securities with equity-like characteristics, and reviewing shareholder returns.

Ratings Distribution



Outlook Distribution



Median Item Growth

Japan Rated Universe

	2022f	2023f
GDP growth (%) YOY	2.3%	1.2%
Revenue change (%) YOY	Flat to +5%	Flat to +5%
EBITDA change (%) YOY	+5% to +10%	Flat to +5%
Capex change (%) YOY	Flat	Flat

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. f--Forecast.

Corporate Top Trends Update

Financial metrics may recover only moderately in 2022. In our base case, we expect the aggregated debt-to-EBITDA ratios of rated issuers in Japan to moderately recover to about 2.2x in 2022, from 2.4x a year earlier. The metric was 1.8x in 2019. We assume aggregate EBITDA will rise by 5%-10% year on year in 2022. However, as seen in the technology sector, we also expect rated issuers to continue making large investments, acquisitions or group reorganizations. This could keep reported debt largely the same despite earnings growth in 2022.

Solid liquidity and capital-market access remain a support. We rate close to 90% of our Japanese corporates 'BBB-' or above. Most of these companies maintain ample cash balances. Relationships with domestic banks are also generally long-standing and well-diversified. Funding sources have also diversified, with the issuance of foreign and hybrid bonds. The amount of foreign bonds that rated Japanese corporations issued in 2021 was more than 30% higher than the year before as these companies aggressively expanded their businesses and acquired overseas companies. We expect the issuance amount of hybrid securities to remain high because of robust demand for funds to refinance outstanding hybrid securities on their first callable date.

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Autos: Supply Chain Issues And Inflation Headwinds To Constrain Credit Improvements

Significant rating improvements are unlikely for Japanese automakers over the next 24 months. We anticipate auto production will be constrained by prolonged semiconductor chip shortages. This creates downside risks to our October 2021 forecast for global light vehicle sales growth of 4%-6%, though we still anticipate a gradual recovery to pre-COVID-19 levels in 2023. Global sales grew by 4.6% in 2021. This followed a 14.3% decline in 2020. As of end-January 2022, we had stable outlooks on more than 80% of the rated Japanese automakers and auto suppliers, with adequate rating headroom.

Higher raw material, labor, and freight costs will limit upside to profitability and cash flow, but the risk of significant earnings deterioration is limited. This is given the sector's ongoing cost-reduction programs and our expectation of favorable product pricing. We project average EBITDA margin will stay at 10%-11% in fiscal years 2021 and 2022, up from 9.1% in fiscal 2020. For example, we expect Toyota's EBITDA margin to stay flat at about 12% in fiscal 2022. This is despite our expectation of many new model launches and a moderate recovery in its factory capacity utilization.

Large Japanese auto original equipment manufacturers (OEMs) have much less leveraged balance sheets than most overseas peers. That will allow them to take on large spending on electrification strategies. We expect battery electric vehicles (EV) and plug-ins to make up 15%-20% of the global light vehicle fleet in 2025, up from 4.4% in 2020. While we expect annual capital expenditure to increase 2%-3 % each year over the next two years, major Japanese OEMs (Toyota, Honda, Nissan) should maintain their net cash positions. Recently, Toyota announced its plan to spend ¥4 trillion by 2030. This is to expand its battery EV sales to 2.5 million units. Nissan also targets investments of about ¥2 trillion over the next five years to develop and produce electrified vehicles and batteries. However, we expect both companies to continue to generate positive free operating cash flow in fiscal 2022 by reducing spending on internal combustion engines. Furthermore, their captive finance operations are likely to maintain sound asset quality and stable profitability with the help of conservative business management over the next one to two years.

Corporate Top Trends Update

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Electronics: Financial Policy Will Be The Main Driver Of Credit Quality In 2022

COVID-19 accelerated digital transformation across enterprises. Demand for remote-work hardware and services led to strong hardware (including semiconductor) sales and IT services for global electronics companies in 2021. We anticipate that global IT spending in 2022 will grow by 6.3%, outpacing our global GDP growth forecast of 4.2%. This will be supported by a global economic recovery as well as strong demand for Internet of Things, artificial intelligence, and autonomous driving.

The pace of growth for Japanese electronics companies will vary among the sub-sectors. While we forecast high single-digit growth for the revenue of semiconductor companies and mid-single-digit growth for IT service companies, office equipment companies will continue to face challenges from remote working. Reflecting this, we project only low single-digit growth for these companies, a slight improvement from our estimate of a 5% decline for 2021.

Amid strong growth in the global electronics sector, the negative rating bias for Japanese electronics companies improved significantly to 8% in January 2022 from 50% a year ago. About 77% of ratings in the sector were on stable outlooks as of Jan. 31, 2022. After a 4% decline in 2020, we anticipate aggregate revenue will increase by 8-9% in fiscal 2021 and further by 2-3% in 2022 . Aggregate EBITDA in 2020 was almost flat. It will likely increase by about 15% in fiscal 2021. As such, revenue and EBITDA in fiscal 2021 are likely to be above 2019 levels. Median EBITDA margin could improve to 14-15% in 2021 from 11.7% in 2020. This would be thanks to robust demand and cost reductions.

Most rated companies in the sector have adequate financial headroom at the current ratings. This is because of their low leverage. In our view, the median debt-to-EBITDA ratio for electronics companies in the investment-grade category will remain healthy at about 0.7x over the next 12 months. Almost all Japanese electronics companies should generate positive free operating cash flow despite strategies to spend aggressively on investments. As such, the risk for companies in this sector will stem mostly from financial discipline. Persistently large investments and sizable shareholder returns without mitigating measures (such as asset sales or equity issuance) would diminish their financial headroom. In 2021, the sector saw two big acquisitions from Renesas Electronics Corp. and Panasonic Corp. We affirmed both the ratings with stable outlooks, based on the companies' high financial discipline and mitigating measures.

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Regulated Electric And Gas Utilities: Steady Cash Flow And Government Support Underpin Credit Quality

Credit quality for rated Japanese companies in the sector should be stable in 2022, thanks to steady cash flow. Only 10% of the rated Japanese utilities have negative outlooks. We expect domestic demand for electricity and gas to recover gradually from the pandemic. Although utilities face intense competition in the retail market, we expect them to keep benefiting from their dominance in their home market, a stable regulatory framework for networks, and favorable pricing. The total share of new entrants in the electricity retail market was 21.2% as of October 2021, up 2.6% year on year. The figure in the gas retail market was 17.8% as of Sept. 2021, up 2.0% year on year.

Stable cash flow and disciplined financial management will limit the erosion of balance sheets. The ratio for average funds from operations to debt should hover at about 10% in fiscals 2021 and 2022, compared with about 11% in fiscal 2020. This is despite a likely rise in absolute debt for maintenance spending and investments in renewable energy and overseas businesses.

We incorporate government support in our credit analysis for four out of the six electric utilities we rate in Japan. The support ranges from a one-notch uplift to a three-notch uplift for our assessment of their stand-alone credit profiles. We see a high likelihood that the government will provide timely and sufficient extraordinary support to electric utilities in the event of financial distress. This is due to a consideration of reforms for Japan's electricity system and the government's record of interventions to support major electric power companies in need.

South Korea

Steady Credit Quality With Rising ESG-Related Investments

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Key Takeaways

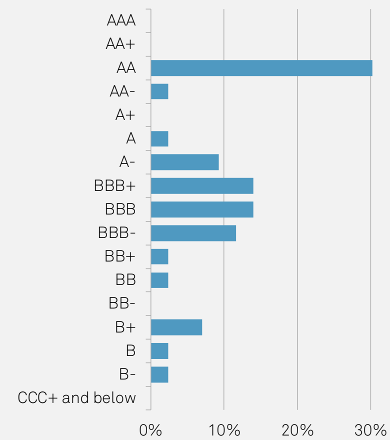
- Operating performance and financial metrics will remain steady and solid for rated Korean companies in 2022, following a material earnings recovery in 2021.
- Demand for various export products, including semiconductors and consumer durables, will stay strong, even with COVID-19 continuing.
- Despite supply-chain disruptions, profitability remains robust for Korean automakers.
- ESG factors are becoming more important in the strategies and investment decisions of Korean companies.

Profitability and financial metrics for Korean corporates should stay steady in 2022 after material improvements during 2021 on solid export demand. While positive rating actions had outweighed negative actions in 2021, we expect credit quality of Korean companies to be more balanced in 2022. As of Jan. 31, 2022, about 9% of our rated Korean corporates have positive rating outlooks. About 16% of the companies still have a negative outlook, but this is materially down from 34% at end-2020. Stronger profitability has been continually improving credit metrics in the companies since fourth-quarter 2020, in sectors such as technology, auto, and steel, leading to the upside rating actions. Heightened profitability is mainly due to the rapid demand recovery for various products globally amid COVID-19, as well as improvement in product mix, in our view. We believe the operating environment will likely remain favorable for major Korean corporates in 2022, particularly export-oriented manufacturers, due to continued strong demand. We estimate median capital expenditure for rated Korean corporates to grow about 5% in 2022. Investments are funded through operating cash flows, with 60% of rated Korean companies generating positive free operating cash flows in our projections for 2022.

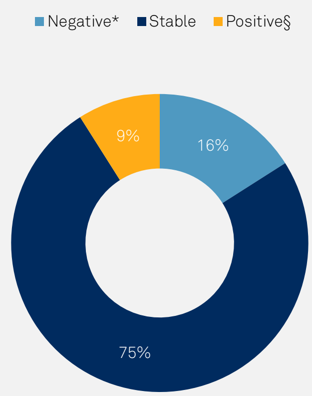
Improving product mix amid strong demand will support Korean corporates' overall operating performance in 2022. In our view, momentum will stay particularly strong for Korea's key sectors such as technology and automobiles. The impact from chip shortages will likely be limited over the next 12 months despite some declines in production volume. This is mainly attributable to strong product competitiveness and the companies' ability to raise selling prices. Increase in demand for remote access, data storage and processing amid COVID-19 has led to rapid growth in global semiconductor demand, including memory semiconductors. After 2021 operating profit in Samsung Electronics Co. Ltd. rose 43% and SK Hynix Inc.'s surged 148% due to the demand boost, we expect their earnings to remain robust in 2022. Meanwhile, a mix of more profitable, premium consumer electronics is supporting LG Electronics Inc.'s strong operating performance. For automakers, operating performance for Hyundai Motor Co. and Kia Corp. is likely to stay strong, despite uncertainties due to chip shortages and quality-related costs. This is mainly driven by recovering global auto demand, together with improving product mix. Successful expansion in SUV product lines and growth of premium brand (such as Genesis) are boosting performance of the automakers, substantially improving their profitability.

Korean companies are focusing more on ESG-related areas such as electric vehicles (EVs), renewable energy, and hydrogen. Korean conglomerates are making strategic changes related to ESG factors in their business portfolios. The companies are expanding more into environmentally friendly business areas, including EVs, renewable energy, and hydrogen. Examples include steelmaker Posco diversifying into EV battery material, and LG Electronics broadening into EV automotive parts. We believe the recent strong operating performances of Korean corporates are supporting their business diversifications into ESG-related areas, boosting investments in ESG activities. However, some of these strategic ESG initiatives have uncertainties. SK Innovation Co. Ltd., for example, is aggressively shifting its business focus toward EV battery players from oil and chemical companies, which will likely pressure its financial metrics. For Korea Electric Power Corp., rapid changes in its power-generation mix could weigh on its financial profile over the next several years.

Ratings Distribution



Outlook Distribution



Median Item Growth

South Korea Rated Universe

	2022f	2023f
GDP growth (%) YOY	2.7%	2.5%
Revenue change (%) YOY	Flat to +5%	Flat
EBITDA change (%) YOY	+5% to +10%	Flat to +5%
Capex change (%) YOY	+5% to +10%	Flat to +5%

Long-term, foreign currency ratings and outlooks as of Jan. 31, 2022. *Negative includes placements on CreditWatch negative. §Positive includes placements on CreditWatch positive. f--Forecast.

Related Research

Asia-Pacific

- Energy Transition Is The Burning Issue For Asia-Pacific Utilities In 2022, Jan 27, 2022
- Asia-Pacific Banks Outlook 2022: The Long And Winding Road (To COVID Recovery), Jan. 25, 2022
- Asia-Pacific Credit Outlook 2022: China Decelerates, Fed Deliberates, Dec. 06, 2021
- Economic Research: Asia-Pacific: Ghosts Of COVID Past Hover Over 2022, Nov. 29, 2021

China

- China Consumer Products And Retail: Dark Clouds Linger For Longer, Jan. 24, 2022
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- Regulatory Heat Rising On China Issuers Listed Overseas, Dec. 03, 2021
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