Building Materials

Asia-Pacific producers brace for market volatility

This report does not constitute a rating action

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What do we expect over the next 12 months?

The satisfactory market position and sufficient financial buffer of most rated Asia-Pacific building material companies will help them weather demand and profitability uncertainty, steadying their creditworthiness.

Chinese producers may only benefit from a mild recovery in demand and financial performance as we continue to expect an L-shaped recovery for the property sector in the second half of 2023.

Korean producers' operating performance faces a test as construction companies turn more selective in project starts, and persistent weak housing market sentiment amid rising interest rates. The Australian market will remain healthy, with a strong pipeline in the residential sector as growth in net overseas migration supports housing demand and public sector investment improves.

What are the key risks around the baseline?

Subdued recovery in Chinese property market and rising interest rates outside of China. We may see a turnaround in China's property crisis in the second half of 2023. But the still weak new construction activities could limit uptick in demand for building materials. While China's year-on-year infrastructure investment growth in Jan.-Apr. has been supportive, local governments' debt control post-pandemic could constrain further acceleration. Outside China, higher interest rates could weaken housing market sentiment.

Elevated input cost and supply-chain constraints. This includes still high fuel prices (mainly coal) and power costs, stemming from supply constraints, geopolitical risks, and higher labor costs. Australian producers could also face raw material shortages due to a supply-chain bottleneck caused by extreme weather.

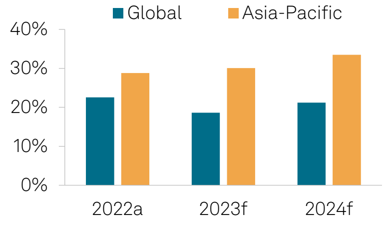
What do they mean for the sector?

Demand pressure. Subdued economic growth and fewer property launches in China could continue to hit construction activities and thus the demand for building materials. Supply-chain constraints for the rest of the region could cause construction delays and limit demand growth for building materials.

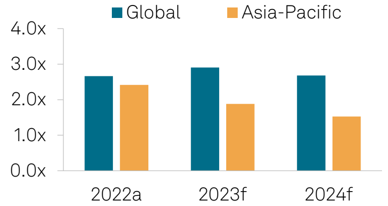
Margin squeeze. Still-high raw material and fuel prices are likely to squeeze building material companies' profitability. Managing costs through operational efficiencies and execution of price increases are key to mitigating input cost inflation. Chinese players could still have a weaker cost pass-through than peers in the rest of the region before demand recovery and ease of oversupply.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.