

Building Materials

Divergence widens among Asia-Pacific producers

This report does not constitute a rating action.

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 demand uncertainty.

A further deterioration in the Chinese property sector continues to weigh on the building material sector, with fewer new housing starts and construction areas. Similarly, Korean producers' operating performance is under pressure with weak demand. Construction project orders are declining and housing-market sentiment remains weak amid high interest rates.

The Australian market will stay 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?

Sharper downturn in the Chinese property sector, and high interest rates outside of China. China's challenging property market underlines still-weak momentum for new construction, hitting demand for building materials. Furthermore, China's infrastructure investment growth will also moderate in 2024 due to more disciplined local government spending. Outside China, prolonged high interest rates continue to weaken housing market sentiment.

Still-high input costs and supply-chain challenges. High raw material and labor costs stemming from inflation, supply constraints, and geopolitical risks outside China are keeping input costs high. Meanwhile, extreme weather risks supply-chain bottlenecks and delays in construction.

What do they mean for the sector?

Ongoing drag on demand. Weak homebuyer confidence and slower economic growth in China would dampen investment into new properties, hitting construction and demand for building materials, especially for basic building materials (cement). Other building materials, such as waterproofing material, may fare better with support from rising renovation needs. Weak housing market sentiment outside China due to high interest rates will have the same impact.

Margin squeeze. While the price of coal--a key energy source--continues to moderate, still-high raw material and labor costs will likely constrain building material companies' profitability. Chinese players may face greater strains on profitability among regional peers because of limits on their ability to raise prices amid sluggish demand.

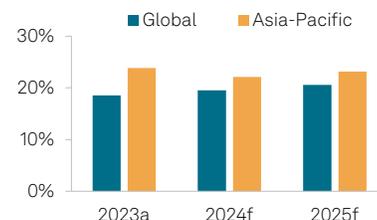
Crystal Wong

Hong Kong
+852-2533-3504
crystal.wong@spglobal.com

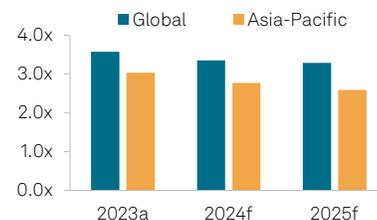


Rating Metrics

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.