S&P Global Ratings

Building Materials

A soft context weakens credit quality in the 'B' category

This report does not constitute a rating action.

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What's changed?

Rating pressure has intensified on speculative-grade companies focused on Europe. Outlook bias in the sector has worsened compared with end 2023. We took negative rating actions on companies in the 'B' category, particularly distributors, and with a business focus in weak performing countries such as Germany, the Nordics, and U.K.

Mergers and acquisitions (M&A) have resumed. Across the sector there were increasing debt-funded acquisitions, particularly from large and diversified investment-grade companies that expanded in regions outside Europe, such as North America and Australia; and in adjacent segments that benefit from climate transition, such as the construction chemicals segment.

Margins should moderately decline compared with 2023. The drop in volume across all business segments and current wage inflation are putting companies' aims of matching the margin level reached in 2023 at risk, though we acknowledge companies' discipline in keeping prices unchanged.

What to look out for?

The credit quality in the investment-grade category remains largely stable. Companies' balance sheets still benefit from the solid results from 2021-2023. However, most players are consuming the rating headroom by spending on M&A and on generous shareholder remuneration.

The EU green building directive offers opportunities to the sector, but the significant costs associated with its wide-scale implementation, particularly for households, could delay single country enactment and disperse the benefits beyond the current decade.

Climate transition risk is among the main drivers of capital allocation. Despite weak business confidence, most companies' capital expenditure is unchanged or increases.

What are the key risks around the baseline?

The drop in volume in the residential building segment may last longer. While we assume a progressive and slow volume recovery in 2025 ahead of lower rates, a prolonged decline or volume stationarity would put pressure on the sector credit quality (particularly of companies in the speculative-grade category that display less rating headroom).

Financial policies turn aggressive. The main factor driving negative rating actions is financial policy. More-aggressive behavior than expected would likely stress ratings. However, private equity sponsors' stance in the building material sector has been rather conservative with no appetite for dividend distributions or debt-funded acquisitions.

Structurally higher construction costs could slow the demand for building renovation, particularly from low-income households. Since 2022, most critical building products prices have significantly increased, reflecting both cost inflation and solid price discipline in the market. The presence of consistent government support schemes in single countries in the EU will be key to help low-income households finance the improvement of their homes' energy performance.

Rating Trends

Outlook Distribution
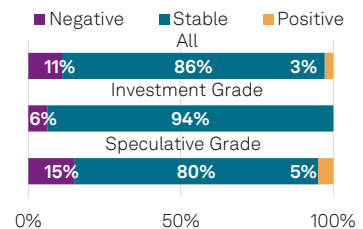
Ratings Statistics (YTD)*

	IG	SG	All
Ratings	16	20	36
Downgrades	0	1	1
Upgrades	0	2	2

Ratings Outlook Net Bias

Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.3	-0.2
EBITDA growth (Y/Y%)	-2.8	-4.0
EBITDA margin (%)	18.6	15.1
Capex growth (Y/Y%)	1.9	-0.5
Debt/EBITDA (x)	1.5	5.6
FFO/Debt (%)	52.1	9.9
FOCF/Debt (%)	34.2	3.7

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Credit FAQ: European Building Materials Firms Display Good Rating Headroom In A Sluggish Environment, March 19, 2024

Global Building Materials Companies: Strongest To Weakest, Feb. 6, 2024

Holcim's Financial Flexibility Could Offset The Loss Of Diversity Caused By Spinning Off Its U.S. Business, Jan. 30, 2024

Industry Credit Outlook 2024: Building Materials, Jan. 9, 2024