Building Materials

Stable credit quality on a weaker foundation

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This report does not constitute a rating action.

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What's changed?

Heightened geopolitical and trade tensions could indirectly affect the sector. Most building products are produced and sold locally. However, increasing trade tensions and continued geopolitical risk may indirectly affect sales by hampering business and consumer confidence.

Rating pressure is confined in the 'B' category. Elsewhere, we expect credit quality to remain largely stable in 2025 despite the prolonged effects of challenging market conditions.

M&A activity has resumed. After renewed activity in 2024, we anticipate further acquisitions, particularly large companies expanding in regions or segments that benefit from higher growth.

What are the key assumptions for 2025?

Volume recovery will be very gradual. In most regions, the residential sector is still struggling, and growth is confined to infrastructure construction fueled by public funds.

Largely stable profitability. Limited volume recovery by the end of 2025 may support operating leverage, but high commodity, labor, and delivery costs could put pressure on margins.

Capital expenditure (capex) is sustained. Investments in high growth business segments, climate transition, and digitalization continue to drive capital allocation.

What are the key risks around the baseline?

Prolonged business downturn. Weak demand could persist as property and building product prices stay high. Also, geopolitical and trade tensions could affect household confidence.

Financial policies are more aggressive. Given both increased acquisition spending and longer than anticipated market softness, the debt leverage cushion has deteriorated for many issuers.

High costs linked with climate transition. Absent sufficient support from public bodies, it can be difficult for companies and households to invest to comply with local decarbonization regulation.

Ratings Trends: Building Materials

Chart 1

Ratings distribution

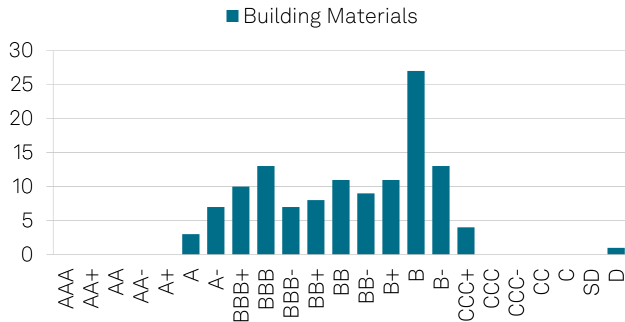


Chart 2

Ratings distribution by region

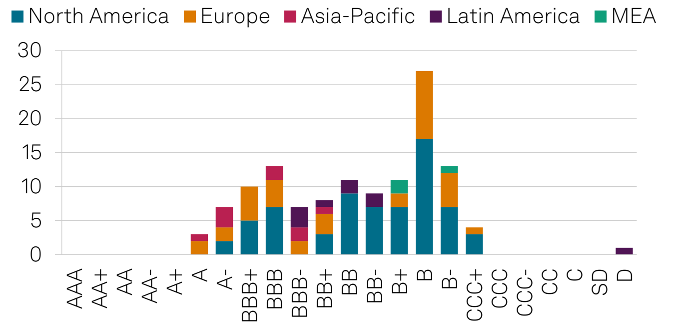


Chart 3

Ratings outlooks

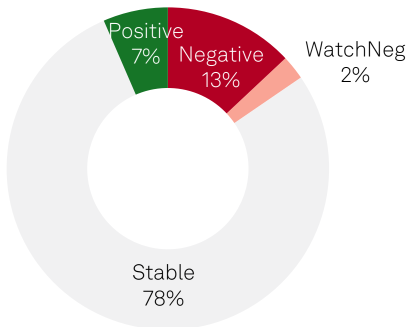


Chart 4

Ratings outlooks by region

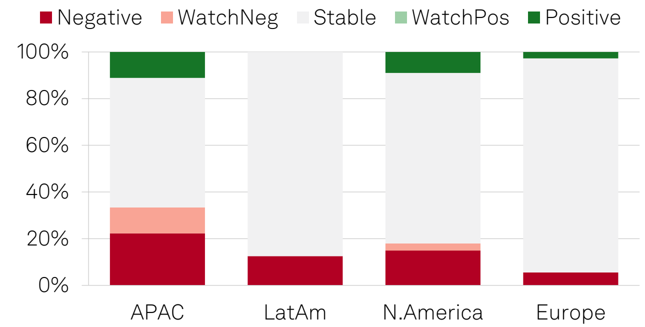


Chart 5

Ratings outlook net bias

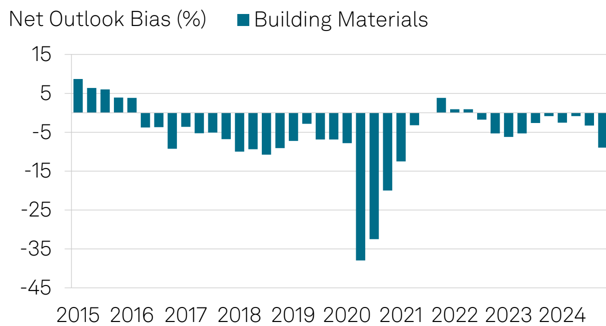
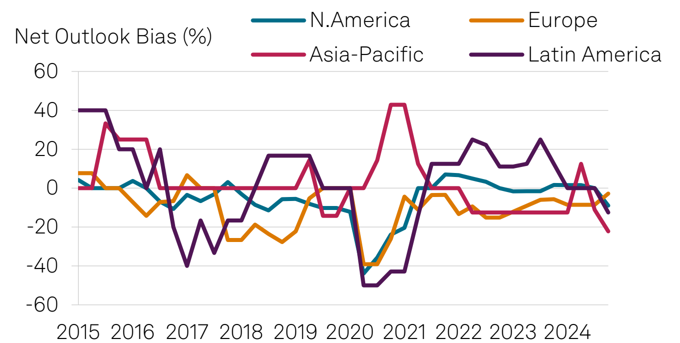


Chart 6

Ratings net outlook bias by region



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook: North America

Ratings trends and outlook

We expect credit quality to remain largely stable in 2025 despite the prolonged effects of challenging market conditions, offset by the considerable benefit from nondiscretionary product resiliency and some opportunity for declining interest rates. The ratings on about 80% of issuers have a stable outlook with the remaining companies marginally biased toward negative outlooks compared with positive. Therefore, we anticipate that most issuers are prepared to navigate uncertain conditions through 2025. We anticipate that any ratings deterioration will be concentrated on the lower-rated issuers.

Building materials companies could still experience some margin pressure from higher commodity, labor, and freight costs, while the potential for tariff implementation could result in materially higher prices that could dampen demand. We expect margins will be pressured if the ability to pass through cost increases is limited. Generally, building materials companies are successfully implementing cost-saving and efficiency initiatives, which we think will anchor margins above pre-pandemic levels. Companies that can maintain pricing power with lower cost inventory despite declining demand volume will be better positioned to meet our profit and leverage forecasts for 2025.

Main assumptions about 2025 and beyond

1. Interest rate cuts are not enough to reverse low repair and remodel spending or delayed projects.

While we expect further interest rates cuts will eventually lead to an increase in renovation and other spending, the pace and speed of the improvement is expected to lag several quarters. The Federal Reserve (Fed)'s 100 basis points (bps) of rate cuts in 2024 are also not likely to improve affordability enough to incentivize completion of larger discretionary projects.

2. Margins will likely stay under pressure; however, public infrastructure spending may mitigate pressure for some issuers.

We expect margins will remain under pressure in 2025 because of high commodity, labor, and delivery costs. Aging housing stock and federal investments in infrastructure should increase demand but issuers will likely continue to rely on pricing power to maintain margins.

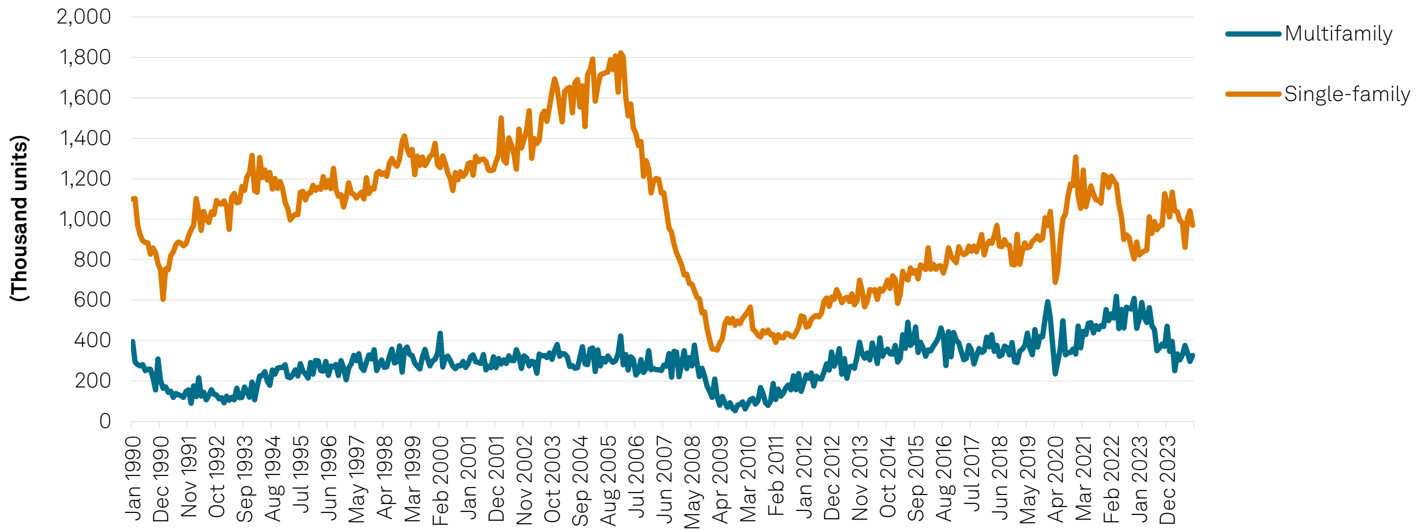
3. Delayed construction market recovery may mean persistently pressured earnings.

Fundamentals for the building materials sector remain subject to slowing economic growth and consumer spending. We previously anticipated the second half of 2024 would reflect more significant earnings recovery than what occurred. We expect consumer spending to remain pressured through the first half of 2025, some issuers may experience persistently low volumes.

Interest rate cuts may also be materially delayed. This is because the Fed may react to the higher inflation expectation from tariffs. Inflation will erode purchasing power, which will disproportionately affect demand for discretionary products such as cabinetry and bath fixtures. In recent years, revenue across the portfolio has been generally strong but we expect flat to low-single-digit declines for the sector with commodity-based companies falling more sharply. We expect housing starts will remain stable at about 1.36 million in 2025 (see chart 7).

Chart 7

U.S. housing starts

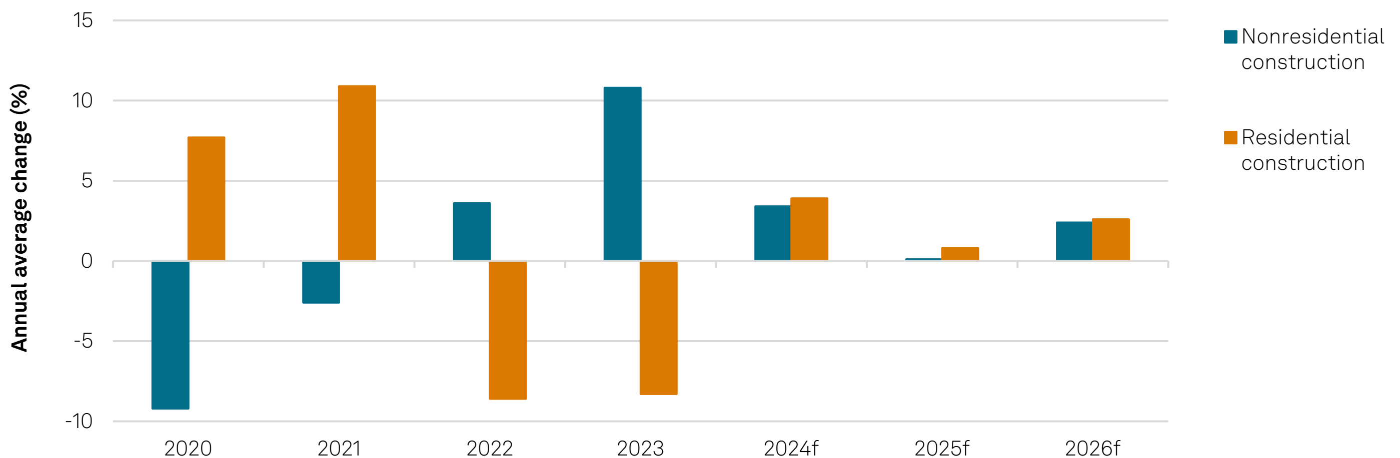


Note: Multifamily starts are housing starts of 5-unit structure. Data as of Oct. 2024. Source: Federal Reserve Economic Data.

Nonresidential and residential construction is forecast to contract in 2025. Better-than-expected performance for both end markets throughout 2024 (see chart 8), despite challenging conditions and higher borrowing costs. We expect market fundamentals to remain strained in 2025 as we think that current interest rates remain restrictive of housing affordability. Similarly, we anticipate weak nonresidential construction in 2025. Public construction outlay is likely to continue offsetting private construction contraction, however, we think that recent indicators may foreshadow exhausted growth sources for infrastructure investments.

Chart 8

U.S. nonresidential and residential construction forecast



f—Forecast.
Source: S&P Global Ratings Economics, Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty.

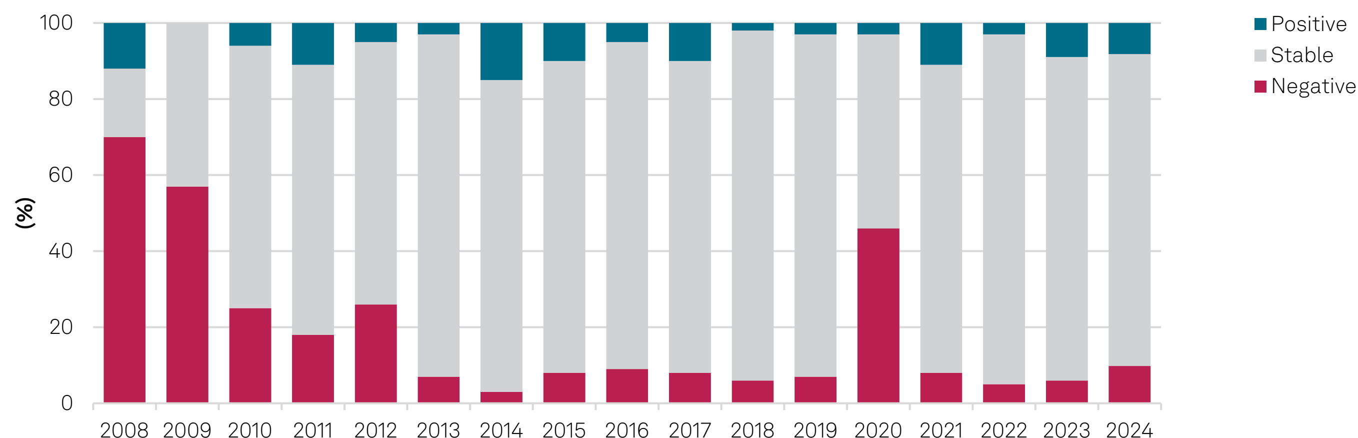
Credit metrics and financial policy

With an uptick in merger and acquisition (M&A) activity in the first half of 2024 and many companies refinancing, completing add-ons, or raising new debt in 2024, the credit cushion has largely depleted from pandemic-era highs. We viewed the capital structure rebalancing as largely credit neutral; however, the combination of elevated debt and market uncertainty may contribute to negative bias within the sector. We have taken negative rating actions on companies like Cornerstone Building Brands Inc. and Mannington Mills Inc. whose performance was weaker than expected and coupled with newly raised debt levels resulted in materially weaker metrics. Well capitalized companies demonstrating strong cash flow, profitability, and the ability to pass on cost increases are likely to see stable or improving credit metrics.

The outlook bias is more negative than in 2023 (see chart 9) reflecting some issuers' inability to maintain stable key credit metrics through the cycle.

Chart 9

U.S. building materials companies' outlook distribution



Source: S&P Global Ratings.

Key risks or opportunities around the baseline

1. Interest rates and cost inflation could strain consumer spending and reduce earnings.

Construction has remained soft as interest rates remain restrictive despite a 100 bps cut by the Fed in 2024. We anticipate affordability will remain an issue across repairs and remodeling, and new residential construction markets due to cost pressures. The recent flattening in infrastructure spending also indicates exhausted growth in infrastructure-driven nonresidential construction.

2. Successful implementation of tariffs may affect margins.

Suggested tariffs by the new U.S. presidential administration may lead to higher material costs, disrupt supply chains, and potentially slow construction projects. Margin performance will likely depend on a company's ability to pass on increases costs, a disproportionately challenging task for smaller companies or those in highly competitive markets.

3. Aggressive financial policy will remain a key risk to rating actions.

Given the rise in debt issuances, M&A transactions, and longer-than-anticipated market softness, the debt leverage cushion has deteriorated for many issuers. Continuation of the trend, coupled with market volatility, may result in a more negative biased for the sector.

Increased inflation is a risk to our base-case assumption. S&P Global Ratings expects inflation to remain above the 2.0% target longer than previously anticipated, likely to reach 3.5%-3.75% by end-2025. President-elect Donald Trump's proposed economic plan could push inflation even higher and dent GDP growth. This could result in negative rating actions, especially for companies with significant exposure to discretionary consumer spending or whose earnings are highly sensitive to cost-price adjustments.

We think an increase in tariffs could pressure revenue and margins. This is if price inflation dampens demand or the ability to pass through cost increases is constrained. While supply chains have evolved in the last several years, with issuers optimizing supply chains and reducing exposure to China (following the first Trump administration and the pandemic), this remains a risk. We think that a universal tariff and significantly higher tariffs on Chinese imports could mean an increase in U.S. inflation, and a drag on GDP growth. A 10% universal tariff on all core goods imported into the U.S. could add as much as 1.8 percentage points to the Consumer Price Index (based on share of exposure), triggering a resurgence in inflation in the first year—although that would be a one-off shift in prices rather than having an ongoing inflationary effect.

Aggressive financial policies remain among the main risks to ratings. The building materials industry is heavily controlled by private investment and has seen significant M&A deals in recent years. We expect this trend to continue in 2025. Larger companies may benefit from economies of scale, improving their credit profiles, while smaller players may face financial pressure and potentially reduce their access to credit. Some companies may face financial restructuring or take on more debt to fund expansion, which could affect their credit outlooks.

Industry Outlook: EMEA

Ratings trends and outlook

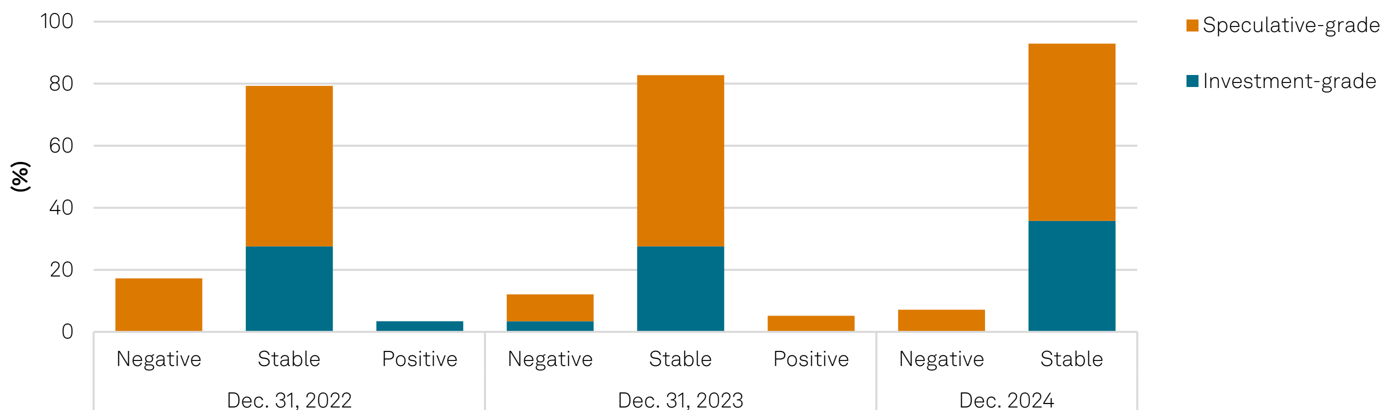
The European building materials sector is still experiencing a pronounced downturn in residential construction, particularly of new buildings. While mortgage rates are progressively adapting to an easier monetary policy driven by reduced inflation, construction costs and property prices remain high, constraining substantial demand recovery. We anticipate the rebound to be very gradual, starting in the second half of 2025. At the same time, civil engineering remains solid on the back of large infrastructure fundings and projects, and nonresidential construction displays more resilient trend, particularly those segments with carbon reduction targets that benefit from public grants. Median EBITDA margins are almost unchanged, but this masks significant differences: Large building materials companies have been able to further increase margins thanks to a positive price-cost gap that more than offset lower volume and the benefit of geographic diversification outside of Europe, while regional and small companies are suffering from margin decline due to lower operating leverage ahead of significant volume drop in Europe.

The rating headroom built after the pandemic has significantly reduced reflecting both the 2023-2024 business downturn (particularly in the speculative-grade category) and renewed capital spending for both acquisitions and shareholder remuneration (particularly in the investment-grade category). Rating pressure has intensified on speculative-grade companies focused on Europe. 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 the U.K. Currently, about 93% of rated companies display a stable outlook (see chart 10). Negative outlooks reduced to 7% in December 2024, from 12% in December 2023 reflecting some downgrades we took over 2024. Even so, the negative outlook bias persists in the B rating category, indicating that negative rating actions should exceed positive ones in 2025.

We think that speculative-grade companies remain more exposed to downgrades, given their weaker business diversity and limited financial flexibility. Rating headroom for investment-grade companies has reduced, but it still provides some flexibility for additional capital spending in 2025. We think that financial policies will continue to determine companies' creditworthiness and our ratings, both in the investment-grade and the speculative-grade category.

Chart 10

European building materials companies' outlook distribution



Source: S&P Global Ratings.

Main assumptions about 2025 and beyond

1. The volume recovery should be very gradual, only starting in the second half of 2025.

The European construction outlook remains downcast in 2025, especially in Germany and Italy. Growth should only resume in the second half of 2025, when we anticipate a progressive volume recovery in residential construction, mainly driven by renovation. Nonresidential building construction should post a modest growth. In contrast, the positive volumes trend in civil engineering persists, thanks to new public funded investments.

2. Profitability margins should modestly improve as the recovery progresses.

If in 2024 the still positive price-cost gap drove most of the margin resilience, in 2025 we anticipate that somewhat better operating leverage should lead to a modest margin improvement. This is coupled with the benefit of business restructuring undertaken in 2024 in those segments mostly affected by business drop, such as distribution.

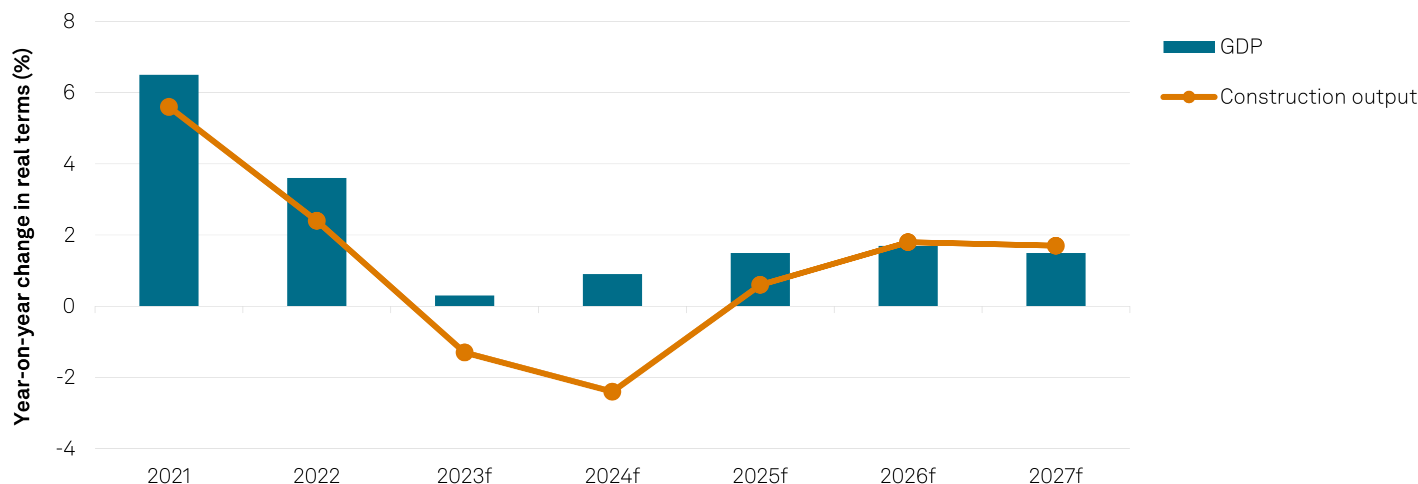
3. M&A has resumed, and we anticipate further acquisitions in 2025.

Across the sector there were increasing debt-funded acquisitions, particularly from large and diversified 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. We anticipate that this trend will continue in 2025, as companies aim to take on business growth linked with digitalization and energy transition.

Uncertainty remains around the economic and operating environment in 2025. Growth should only resume in the second half of 2025 in the European construction sector, when we anticipate a modest volume recovery in residential construction, mainly driven by renovation. While mortgage rates are adapting to an easier monetary policy ahead of reduced inflation, both construction costs and property prices remain high, constraining a substantial demand rebound. Significant uncertainties linked to geopolitical risks also undermine consumer spending and business confidence. According to Euroconstruct, construction output should have contracted by 2.4% in 2024, after a decrease of 1.3% in 2023, and it should rebound by a modest 0.6% in 2025. Construction growth should only align with GDP in 2026 (see chart 11).

Chart 11

GDP and construction output in Europe (EC-19, % change)



f—Forecast. Source: Euroconstruct.

Business conditions will remain tough in the new residential sector. This is because housing permits will remain depressed. According to Euroconstruct, new residential construction should stabilize in 2025, with growth only returning in the following years. The residential building renovation sector, which contracted in 2023-2024, should post a modest recovery by the end of 2025.

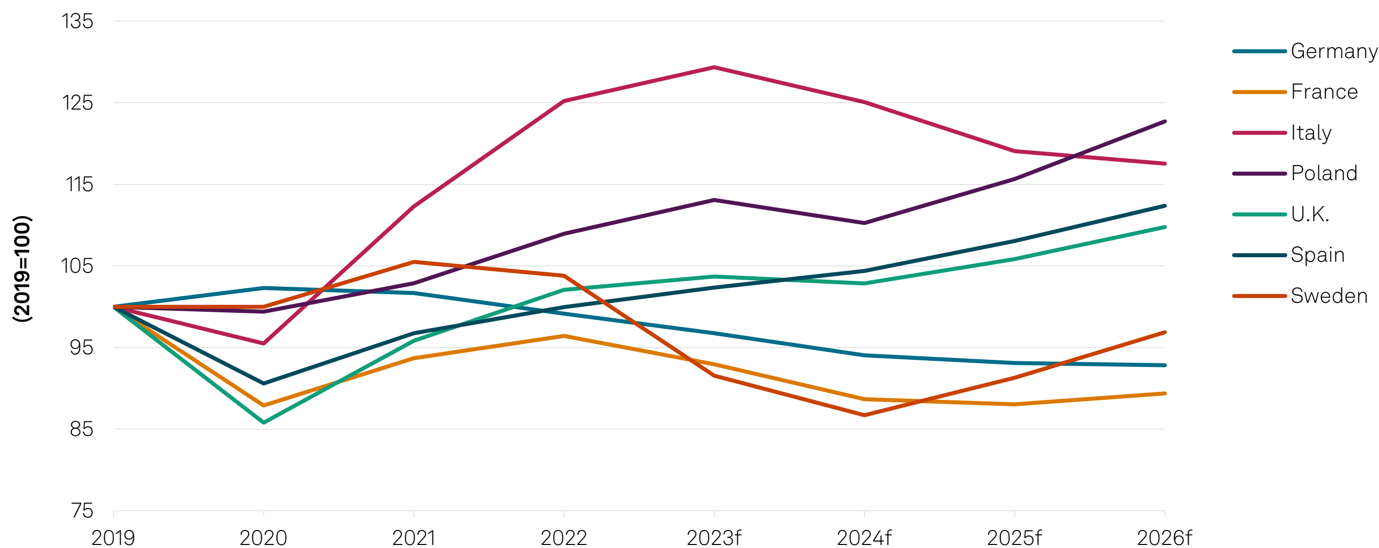
Civil engineering and industrial construction should benefit from investments. Particularly in low-carbon energy production, energy distribution, and transport networks. This follows the implementation of the NextGenerationEU strategy.

Companies offering light products in heating, ventilation, air conditioning, and electricity (including cables and installation materials, lighting, automation, data, and safety products) should benefit first from the volume rebound compared with companies that offer heavy-side building materials.

Business conditions remain challenging in core countries. These include Germany and Italy, while conditions should improve in the Nordics and the U.K. According to Euroconstruct, most European countries posted a volume drop in 2024, particularly the Nordics, Germany, and France where the drop should have averaged 5% (see chart 12). In 2025, there should be a moderate volume recovery in the Nordics. However, Germany and Italy should post a further, though modest, volume drop. In Germany, political instability at home and abroad, and high construction costs remain a barrier to household investments. In Italy, the residential sector performed best in 2021-2022, with a cumulative growth of about 30%, thanks to generous tax incentives to the residential renovation segment. However, as result of the current Italian government decision to significantly scale down tax incentives starting year 2025, we anticipate a depressed outlook in 2025-2026.

Chart 12

Construction output by country (EC-19, index, 2019=100)



f—Forecast. Source: Euroconstruct.

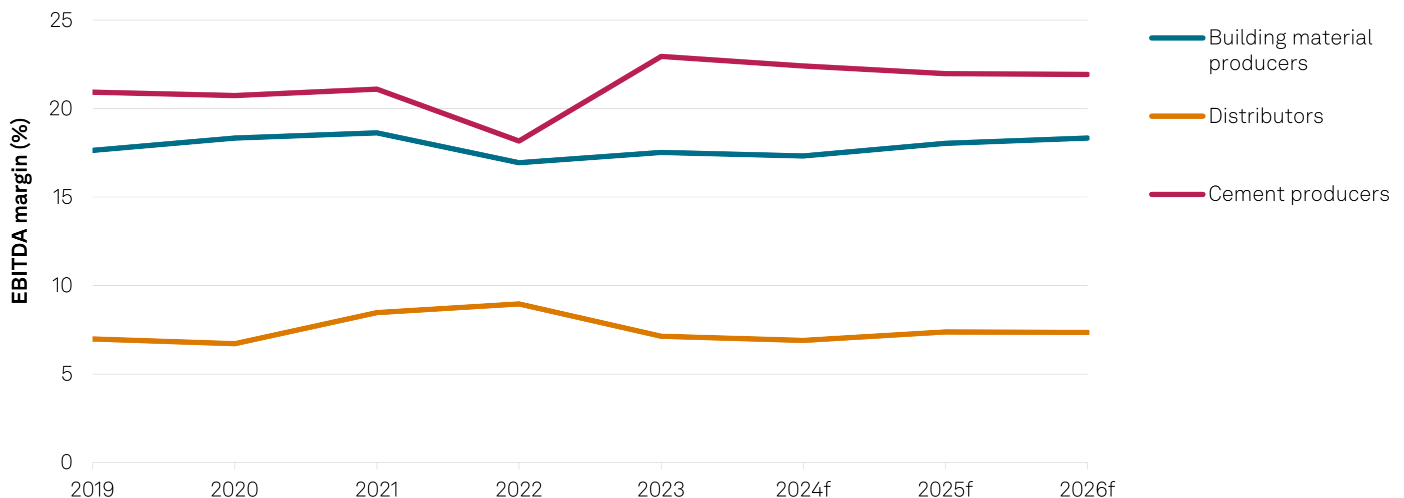
The EU Energy Performance of Building Directive offers opportunities to the sector. This is because it aims to accelerate building renovation rates, reduce carbon emissions and energy consumption, and promote the uptake of renewable energy in buildings in the medium term. The directive is part of the “Fit for 55” program, which aligns the EU’s policies with its commitment to reduce net greenhouse gas emissions by at least 55% by 2030 compared with 1990 levels, and to achieve climate neutrality by 2050. The directive would provide a significant boost to companies

whose products target building energy efficiency, such as insulation panels, heat pumps, and windows. However, since 2022, most critical building products prices have significantly increased, reflecting both cost inflation and solid price discipline in the market. As such, the significant costs associated with the large-scale implementation of the directive, particularly for low-income households, could delay single country enactment and disperse the benefits beyond the current decade, unless there are consistent and more favorable subsidy schemes for housing renovation in key countries in Europe.

We anticipate that EBITDA margins on average will be broadly stable in 2024. Margins will then improve modestly in 2025 (see chart 13). However, there are significant differences by business segment and company. Small distributors' margin dropped significantly in 2024, reflecting significantly lower volumes. Margins should only modestly recover in 2025, reflecting some volume rebound and the benefit of business restructuring undertaken in 2024 when small distributors suffered from significant costs associated with the restructuring. Large players in the heavy-side segment have, however, been able to improve or keep margins despite the volume drop, reflecting a more favorable price-cost gap and diversification outside Europe and they should keep their margins largely unchanged in 2025. Persisting wage inflation and limited volume rebound should limit the extent of margin improvement in 2025, on average.

Chart 13

Median adjusted EBITDA margin



f—Forecast. Source: S&P Global Ratings.

We anticipate pricing discipline will persist in the market. This is a key difference compared with previous business downturns. Building materials companies, particularly heavy side, were able to pass on cost inflation to clients over 2022-2023, reflecting both supportive demand and strong pricing discipline. In 2024, companies kept their prices unchanged, on average, which helped margins in front of disinflation in raw materials and energy prices.

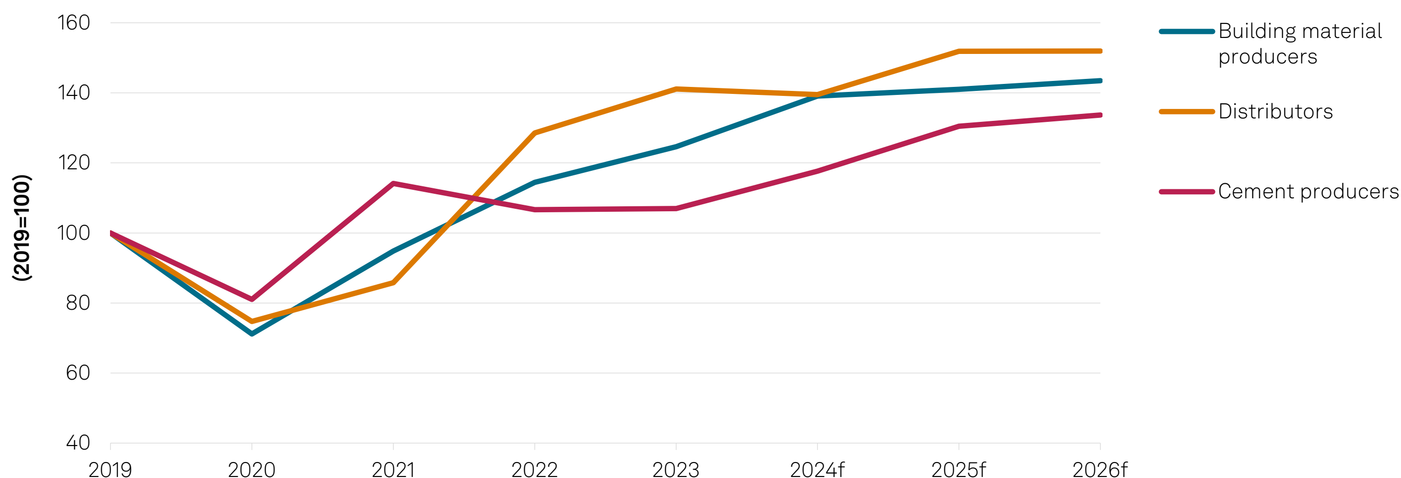
We assume that raw material and energy costs will be mostly unchanged in 2025. Spot prices on the Title Transfer Facility of natural gas, a key energy source in some building materials segments, has averaged between €30 and €40 in 2024. This is well below the peak reached in 2022. Natural gas prices, however, remain about 2.0x higher than they were before the pandemic. The price of electricity, another key energy source in the building materials segment, has displayed a downward trend since 2023, but there are significant price differences by country, reflecting the different energy mix used to produce electricity. On average, the electricity price is higher in countries such as Italy and Germany that rely more on natural gas to produce electricity.

Among other relevant raw materials in the sector, copper, steel, and aluminum wholesale purchase prices have normalized since the peak in 2022. However, they remain above pre-pandemic levels because of additional demand resulting from infrastructure renovations, energy efficiency renovations, and digitalization.

Despite weakened business confidence, most companies' capex further increased. We anticipate an increase in capex of about 5% in 2025, on average (see chart 14). Climate transition continues to drive capital allocation. This is the case for cement manufacturers, who invest to reduce their carbon footprint and meet their 2030 carbon reduction targets; light-side companies that enlarge their product offering to meet the demand for energy efficient improvements; and distributors that invest to improve their logistic and digital resources.

Chart 14

Capex evolution (index, 2019=100)



f—Forecast. Source: S&P Global Ratings.

Climate transition risk is at the core of cement companies' capital allocation. Cement companies assign an increasing share of their maintenance capex to improve plants' thermal efficiency and cut carbon dioxide emissions. Investments relate to increasing the use of alternative fuels or biomass, decreasing clinker content, and accelerating process innovation. Some companies switch to other building products, which helps reduce their consolidated carbon intensity. The most tangible example is Holcim Ltd., whose growth strategy focuses on increasing its share of value-added products and strengthening its environmental credentials by reducing the carbon footprint in its core cement business.

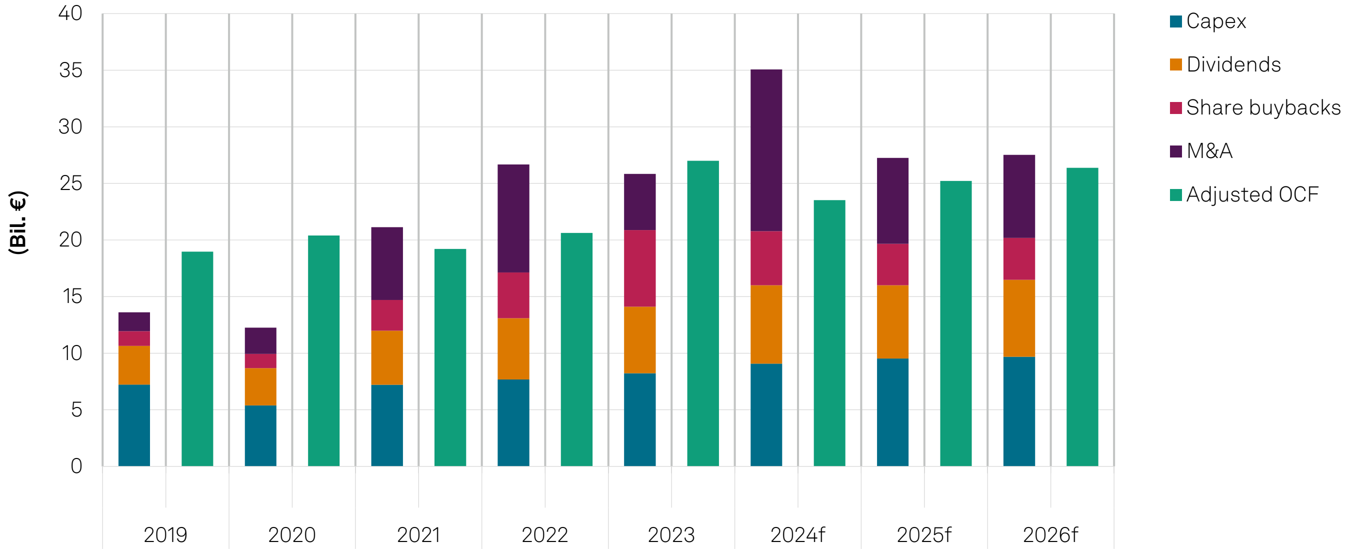
Credit metrics and financial policy.

Companies in the investment-grade category display solid balance sheets. This is thanks to the resilient performance achieved during the current downturn, which follows the strong results in the 2021-2022 after recovering from the pandemic.

Most companies have significantly increased their capital allocation to M&A in 2024 (see chart 15). Companies have also kept a generous shareholder remuneration, which translated into higher adjusted debt and lower credit metrics. We anticipate that this trend will continue in 2025, as companies aim to take on business growth linked with digitalization and energy transition and investing in those developed countries with most attractive growth rates, such as the U.S.

Chart 15

Large building materials companies' capital allocation (2019-2026f)

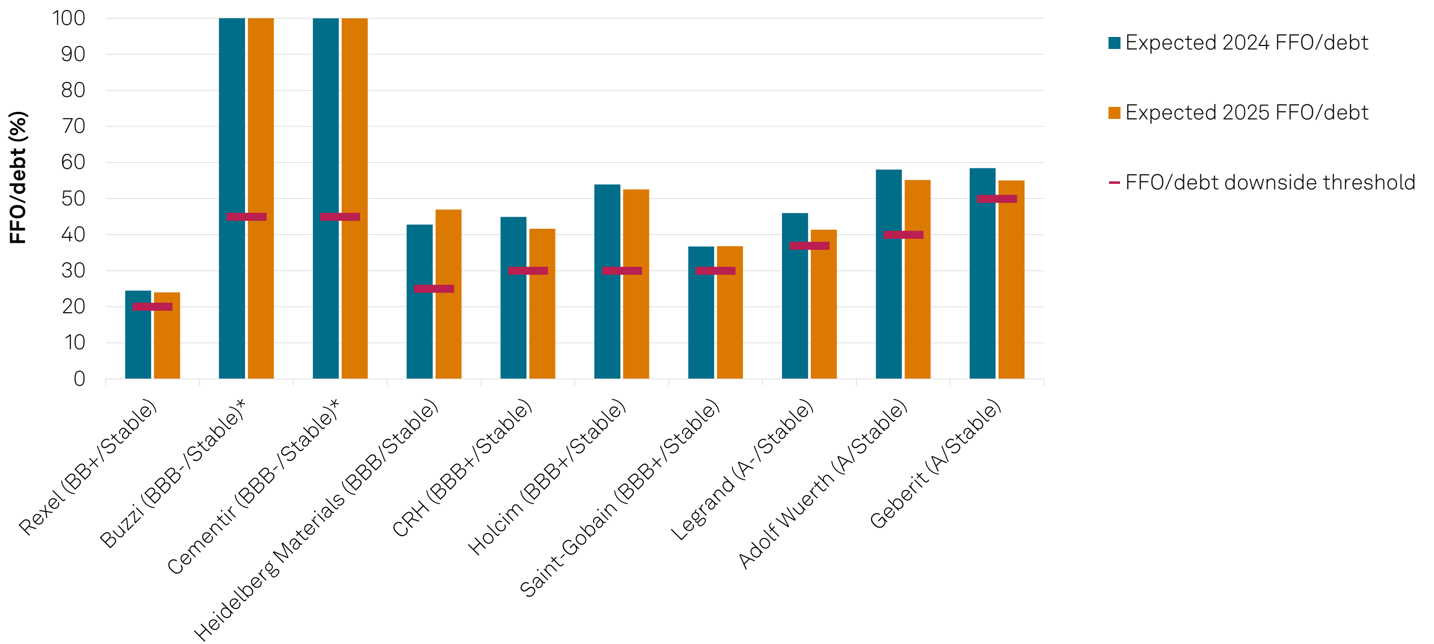


f—Forecast. OCF—Operating cash flow. Companies include Adolf Wuerth, Buzzi, Cementir, Saint-Gobain, CRH, Heidelberg Materials, Holcim, Legrand, and Rexel. Source: S&P Global Ratings.

Most investment-grade issuers' have sufficient rating headroom (see chart 16). This translates into a stable outlook on their ratings. However, companies' shareholder remuneration remains generous on average. Share buybacks decreased in 2024, but total shareholder remuneration remains elevated in the context of the business cycle. We think that financial policy stands as the main driver of potential rating changes, though we observe that our rated companies are committed to keep their current rating.

Chart 16

Rating headroom of main rated investment-grade issuers



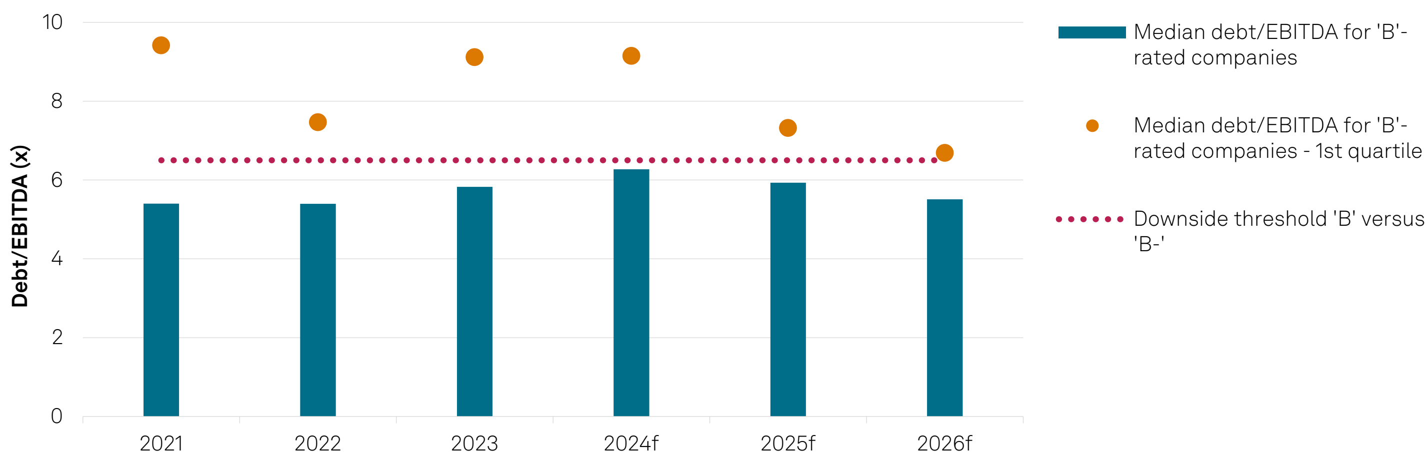
* FFO/debt of Buzzi and Cementir is expected to be above 100%. Source: S&P Global Ratings.

Speculative-grade companies are more exposed to downgrades. This is because of their weaker business diversity and limited financial flexibility. We took negative rating actions on companies in the 'B' category that entered the business downturn with limited rating headroom and that suffered from lower business volume and cash flow generation, particularly regional distributors, with a business focus in weaker-performing countries such as Germany, the Nordics, and the U.K.

We forecast median S&P Global Ratings-adjusted leverage will improve. This is for issuers with a rating in the 'B' category, leverage will improve modestly to 5.9x in 2025, from 6.3x in 2024 (see chart 17). This reflects some volume rebound, and the benefit of business restructuring undertaken in 2024 along with the associated significant costs. However, the worst quartile still displays an adjusted leverage above 7.0x in 2025, which make it vulnerable to negative rating actions. Companies' ability to keep or turn their free operating cash flow (FOCF) positive will be key to ease rating pressure. We understand that most private equity-owned companies will focus on deleveraging in 2025. Therefore, we think that an increase in financial leverage because of acquisitions or shareholder remuneration will be unlikely over next few quarters.

Chart 17

'B'-rated companies' median leverage trend



f—Forecast. Source: S&P Global Ratings.

Key risks or opportunities around the baseline

1. Prolonged downturn and reduction in demand in Europe could impair credit metrics.

Weak demand could persist in Europe, especially for the new-build end-market, as housing materials stay expensive. Geopolitical and trade tensions could indirectly affect the sector. Early signs of raw materials and labor costs inflation could also drag on profitability in 2025, and issuers may not be able to pass through price increases in a weak demand environment.

2. More aggressive financial policies could lead to negative rating actions.

Rating pressure may arise if shareholder remuneration remains high, especially in a context of weak demand and declining volumes. Debt-funded acquisitions could also constrain credit metrics. Private equity-owned issuers remain exposed to highly leveraged capital structures, particularly among 'B' rated companies.

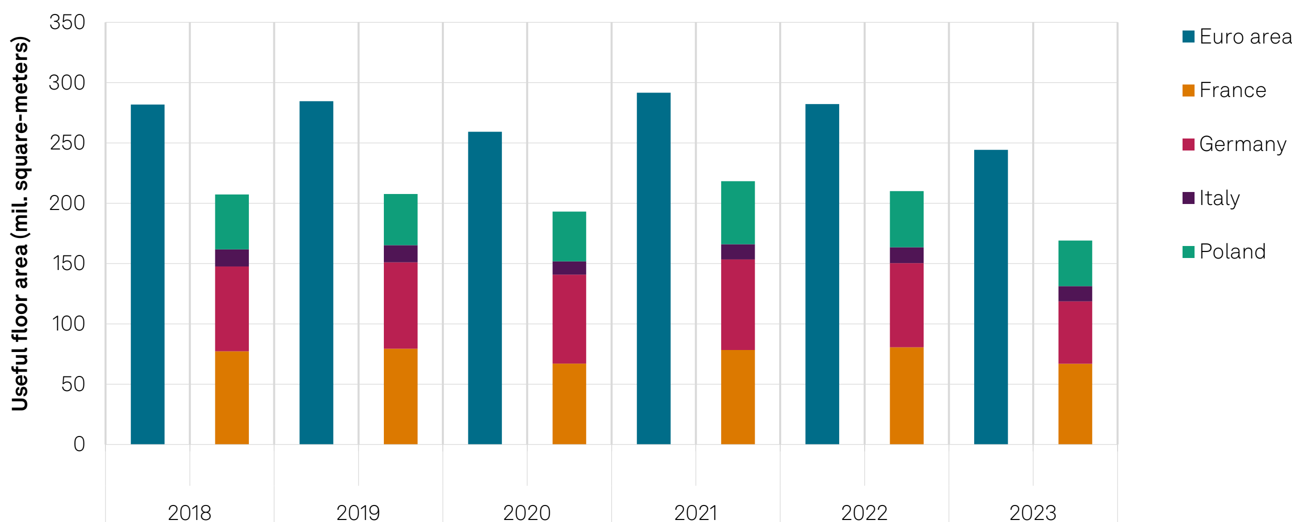
3. Costs linked with climate transition could weigh on companies and households.

Companies need to invest materially to meet their decarbonization targets, especially in the heavy building materials segment. Absent financings or incentives from public bodies, we think that carbon costs and capex could materially dent companies' credit metrics, potentially delaying their decarbonization agenda. Similarly, tax incentives are important to mitigate the burden of energy-saving building materials costs, particularly for low-income households; without them, a significant volume rebound is unlikely in the next few years.

It will take some time for companies to recover. Companies will eventually rebuild their order books, resume new building projects, and their financial results will recover. Depending on the sector submarkets, we estimate that there could be a time lag of six to nine months between the start of the trend reversal and the actual pick up of the companies' profit and loss and cash flows. The number of building permits have been at historical lows for the past decade (see chart 18). If building permits, business confidence, and housing starts do not recover in the coming quarters, companies are unlikely to see an improvement in activity and revenues in 2025.

Chart 18

Building permits in the EU



Source: Eurostat.

Geopolitical and trade tensions could indirectly affect the sector. Most building products are produced and sold locally. However, increasing trade tensions and geopolitical risks may indirectly affect sales by hampering business and consumer confidence.

The increase in raw materials costs could affect companies. This includes companies' price-cost spreads narrowing, and profitability decreasing in 2025. Few companies such as CRH PLC, Heidelberg Materials AG [?], and Compagnie de Saint-Gobain [?] already hinted at some potential raw material inflation in 2025. In a context of weak demand in Europe, issuers may struggle to pass through additional price increases and profitability may reduce. In addition, wage inflation could continue into 2025. Therefore, the ability to adapt the cost base to a prolonged downturn would be key for issuers. We think that it could be harder for speculative-grade companies to further adjust their cost-base without harming their businesses, as they have already made meaningful efforts in 2023-2024.

Shareholder-friendly financial policies could continue to consume rating headroom. This could also lead to a greater deterioration of credit metrics than we anticipate. Shareholder remuneration has significantly increased between 2021 and 2023 and remained sustained in

2024. While dividends of building materials issuers in the investment-grade category have increased by an annual average of about 15% since 2019, share buybacks tripled over the same period. If issuers do not scale down shareholder remunerations, they could face tighter rating headroom. We recently lowered our rating on Geberit AG to (A/Stable/--) from (A+/Negative/--) due to weakened credit metrics ahead of persistently high shareholder remuneration in a tough market environment. Private equity-owned issuers' financial leverage has worsened, reflecting the current downturn (see chart 17), and current ratings would be significantly pressured in the case of debt-funded dividends.

Rating pressure could also stem from debt-funded M&As. This is because these usually weaken companies' financial leverage. M&A activity has been exceptionally high in 2024, namely in the investment-grade rating category, and it involved both large transactions (such as those made by Compagnie de Saint-Gobain and CRH) as well as several bolt-on acquisitions (see table 1). We estimate that M&A spending for our investment-grade rated issuers will exceed €14 billion in 2024, from about €5 billion in 2023. We forecast that total M&A cash outflows will decrease in 2025, mainly because several issuers have consumed most of their rating headroom (see the "Credit metrics and financial policy" section), although M&A will remain elevated at more than €7 billion. Any additional debt-funded M&A cash outflows beyond our base case could weigh on companies' credit metrics and ratings. We think that speculative-grade companies have reduced capacity for M&A in 2025, absent any capital injection, because of their deteriorated financial leverage in 2023-2024.

Table 1

European building materials companies' large acquisitions announced or completed in 2024

Issuer	Acquired company	Description	Enterprise value	Completion date
Compagnie de Saint-Gobain	OVNIVER Group	Leading construction chemicals player in Mexico and Central America	$815 million (about €740 million)	First half 2025 (expected)
Compagnie de Saint-Gobain	CSR Ltd.	Leading building products company in Australia for residential and nonresidential construction	A$4.5 billion (about €2.7 billion)	July 2024
Compagnie de Saint-Gobain	FOSROC	Construction chemicals player with a strong geographic footprint in India, the Middle East, and Asia-Pacific	$1,025 million (about €960 million)	First half 2025 (expected)
Compagnie de Saint-Gobain	Bailey Group Companies	Manufacturer of metal building solutions for light construction in Canada	C$880 million (about €600 million)	June 2024
CRH PLC	Adbri Ltd.	Leading building materials business in Australia	A$2.1 billion ($1.4 billion) on a 100% basis	July 2024
CRH PLC	Assets from Martin Marietta Materials Inc.	Portfolio of cement and ready-mixed concrete assets in Texas	$2.1 billion	February 2024
Heidelberg Materials AG	Giant Cement Holding Inc.	Cement producer on the U.S. East Coast with a focus on using waste-derived fuels	$600 million	First quarter 2025 (expected)
Holcim Ltd.	OX Engineered Products, LLC	Leading U.S. provider of advanced insulation systems	Not communicated	End 2024 (expected)
Legrand S.A.	Davenham	Irish specialist in low-voltage power distribution systems for datacenters, including hyperscalers	Not communicated	June 2024
Rexel S.A.	Talley Inc.	Leading distributor of wireless infrastructure products and solutions in the U.S.	€431.5 million	June 2024

A$—Australian dollar. C$—Canadian dollar. Source: S&P Global Ratings.

We expect that M&A transactions will follow the same trends in 2025 as 2024. We anticipate that M&A transactions will continue to address geographic diversification, global long-term megatrends, and sector consolidation. Acquisition activity in 2024 has focused on the U.S., where the market is still fragmented and where we see higher growth linked with the reshoring of manufacturing capacities and significant infrastructure plans (see table 2). Acquisition activity has also focused on Australia where the market is also fragmented, and demographic trends are more favorable than in Europe. Most acquisitions addressed long-term megatrends such as decarbonization, digitalization, electrification, and energy-efficiency to meet sustainability targets in both the U.S. and Europe. However, announced divestments are focused on Europe and emerging markets, and on energy intensive businesses.

Table 2

Aggregate M&A spendings by issuers in 2024

Issuer	S&P Global Ratings' M&A spendings assumptions	Target size	Region	Transaction rationale
Adolf Wuerth GmbH & Co. KG	€500 million	Bolt-on	Europe	• Electrification
Buzzi SpA	€300 millions	Bolt-on	Latin America	• Geographic diversification
Compagnie de Saint-Gobain	€5 billion	Bolt-on and large deals	North America Asia-Pacific	• Geographic diversification • Sustainable housing • Decarbonization
CRH PLC	€5 billion	Bolt-on and large deals	North America Asia-Pacific	• Geographic diversification
Heidelberg Materials AG	€800 million	Bolt-on	North America	• Geographic diversification
Holcim Ltd.	€1.4 billion	Bolt-on	Europe North America Latin America	• Geographic diversification • Decarbonization
Legrand S.A.	€1.3 billion	Bolt-on	North America Europe Asia-Pacific	• Digitalization • Electrification • Geographic diversification
Rexel S.A.	€500 million	Bolt-on	North America Europe	• Electrification • Geographic diversification

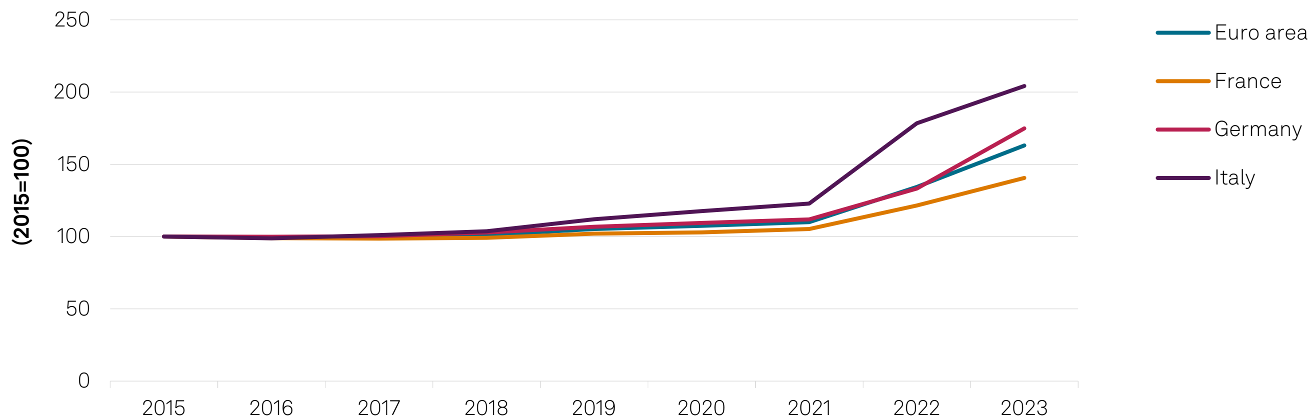
Source: S&P Global Ratings.

We continue to see decarbonization primarily as a risk for ratings. The building materials sector, particularly cement companies, accounts for about 7% of global carbon dioxide emissions. Building materials producers may face cost pressures in the EU because the EU's "Fit for 55" program will likely translate into a significant increase of carbon costs.

Annual carbon costs could account for 75% of EU cement companies' EBITDA on average. This is assuming a complete phase-out of allowances. However, this would not necessarily imply a permanent weakening of their profitability. This is because cement substitution alternatives are limited, and companies' pricing discipline in the market has significantly strengthened after the COVID-19 pandemic. For example, cement companies were able to significantly increase prices in most European countries in 2022-2023 to balance the surge of energy costs ahead of the Russia-Ukraine conflict (see chart 19). We think that large cement companies would be able to pass on much of the higher carbon costs that we anticipate in next few years, though with some time-lag. However, small issuers that display higher carbon emissions may suffer more.

Chart 19

European cement price trend 2015-2023 (index 2015=100)



Source: Eurostat.

Cement issuers' CCUS-related capex could materially increase. Companies could also be persuaded to delay their decarbonization agenda, in the absence of significant cofinancing from public bodies. A significant drop in emissions beyond 2030 can only be achieved by accelerating new carbon capture technologies. Only the leading cement manufacturers are currently at the forefront of carbon capture, utilization, and storage (CCUS) projects. We estimate that building a CCUS plant would cost about €500 million, but this may change depending on the technology used. In Europe, most companies' CCUS projects have been cofinanced by the EU or by single countries. Heidelberg's Brevik CCS project in Norway is the most advanced, and it reached mechanical completion in 2024; this project is part of the Norwegian government's Longship initiative and has been awarded €131 million from the European Commission. Other CCUS projects in the EU are underway, such as Cementir Holding N.V.'s project in Denmark, which has been selected to receive €220 million in project support under the EU Innovation Fund. Holcim also has several ongoing CCUS projects in Belgium, Croatia, and France, among others. European cement players are also pursuing decarbonization projects in the U.S., where there is not a federal carbon regulation, and instead public bodies seem to prefer facilitating the decarbonization of cement and other hard-to-abate sectors though granting subsidies. For example, Heidelberg expects to receive up to $500 million of funding from the U.S. Department of Energy for its largest CCUS project in Indiana, U.S. by 2030. We think that the public financial support remains essential to meet companies' decarbonization agenda, at least until new carbon abatement technologies prove financially viable to companies.

The residential construction market's recovery could be delayed. This is because of a lack of fiscal grants to households. In our view, the large-scale implementation of country and European legislations that address energy savings in buildings will request significant financial support to households, particularly low-income households. This is because most building materials and products' prices have considerably increased since the pandemic. According to Eurostat, cement prices in the eurozone area have increased by over 60% after the pandemic on average, and prices of many other products, such as roof tiles and windows, have increased by more than 50%. This contributed to keeping prices for residential homes high, notwithstanding the sector downturn, which raises concerns about affordability. Absent consistent and prolonged tax incentives in major European countries, we think that recovery could take much longer than expected.

Industry Outlook: Latin America

Ratings trends and outlook

S&P Global Ratings expects ratings stability for most Latin America (LatAm) building materials rated entities in 2025. Only one entity in Peru is under negative outlook due to tighter liquidity management. At the end of 2024, a third of the portfolio is rated at investment-grade (at 'BBB-' or above), while 56% of the portfolio relates to speculative-grade ratings, all of which are in the 'BB' rating category, and one entity is currently in default.

Our baseline assumptions suggest tougher business conditions in 2025 for the building materials sector in LatAm due to our expectation of softer economic growth in the region's largest countries, a high comparison base from 2024 in several markets, and still significant downside risks to our forecast. These factors will likely result in mixed results for LatAm building materials companies. We expect the Brazilian building materials sector will continue to grow, although at a softer pace than in 2024. In Mexico, we anticipate the sector to face a mild contraction due to a slowdown in nonresidential infrastructure projects. In other markets like Peru, Colombia, and Argentina, we forecast a modest uptick in construction activities thanks to the ongoing economic recovery. Our baseline assumptions also include steady remittances and stabilized inflation in most LatAm countries which should contribute to the informal housing sector. Finally, we anticipate profit margins to remain broadly stable in LatAm in 2025, as long as input costs inflation are controlled, because rated entities have lesser capacity to hike their prices significantly following recent years of inflation on most building materials products.

However, we remain cautious, and we will likely revise our forecast through the year because several local and global downside risks surround our sector baseline assumptions in the region. Uncertainty regarding the effect of several domestic and global trade policies could undermine investor sentiment, weaken private fixed investments, and worsen financing conditions in LatAm. Additional downside risks include global geopolitical conflicts that could cause disruption in supply chains and increase energy and transportations costs globally, and the risk of climate change and more frequent natural disasters, among others. Those risks could affect rated entities earnings, profit margins, cash flows, and credit metrics beyond our current estimate, if they materialize or intensify.

Main assumptions about 2025 and beyond

1. Modest, although uneven, growth expected across countries.

We expect soft and mixed results for building materials companies in LatAm because macroeconomic conditions and political landscapes vary across countries.

2. EBITDA margins should remain broadly stable in 2025.

We anticipate a stabilization of EBITDA margins due to limited revenue management capacity beyond inflation and a still fierce competitive environment in most markets.

3. Overcapacity in the region suggests limited need for large investments.

We forecast capex to remain at 4%-5% of revenues.

Our baseline assumptions for the building materials sector in LatAm suggest modest growth. Although this will be uneven across countries. We expect the LatAm region to grow at 2.1% in 2025 and 2.2% in 2026, from 1.5% in 2024, although with several disparities across the region. Inflation should be controlled, and credit conditions should remain resilient.

- **In Brazil**, we forecast GDP growth of 1.9% in 2025, from 3.1% expected in 2024. We anticipate the building materials sector to keep growing although at a softer pace than in 2024. Supporting factors include the government housing program that increases demand in the low- to mid-income segment and a large backlog of infrastructure projects under the New Growth Acceleration Program. The program's progress has been below expectation so far. In early 2025, we expect another hike in the interest rate from the central bank to contain inflation, which we think could negatively weigh on the high-income residential sector, and therefore on the sector's growth. We also think that the competitive environment in Brazil will remain fierce, limiting price increase at inflation.
- **In Mexico**, we anticipate a mild contraction in the building materials sector, before potentially rebounding in the medium to long term (2026-2028). In our view, the sector will face several challenges in 2025. These include a high 2024 comparison base, softer GDP growth at 1.2% from the 1.5% expected in 2024, and lower fixed investments most likely due to the uncertainty from the trade relationship with the U.S. and the lack of clarity on the implications from several domestic policies such as the changes to the judicial system, as well as lower public spendings as the government targets to control the fiscal deficit. Still, our base case suggests a hike in housing starts due to the government's new housing policy, and steady remittances coming from the U.S. that support the informal housing sector, although not enough to offset the expected decline in infrastructure projects.
- **In Peru**, the building materials sector has shown a gradual recovery in the second half of 2024, and we expect this trend to continue in 2025 thanks to better economic activities. We anticipate GDP growth of 2.8% in 2025, from 2.9% expected in 2024, supported by pension fund withdrawals and a rebound in primary exports. Thus, we expect private investments in residential and nonresidential sectors to recover as the economy increases and new infrastructure projects begin.
- **In Colombia**, the building materials sector faced a complex 2024 in both residential and nonresidential construction activities. We expect investments to continue to slowly recover in coming quarters, however, we are cautiously prudent about the sector's growth in 2025. We think that construction activities have bottomed out in 2024 and anticipate that the sector will only increase slightly in 2025.
- **In Argentina**, the economy returned to sequential growth in the third quarter of 2024, and we expect some momentum to flow into year-end 2024 and into 2025. We forecast GDP growth of 3.8% in 2025, after an anticipated contraction of 3.5% in 2024. We still expect challenging business conditions for the building materials sector in 2025, but with some uptick potential in the second half of the year if public policies favor fixed investments and new infrastructure projects. However, we expect the housing sector to modestly rebound thanks to lower interest rates and mortgage financing availability.

EBITDA margins should remain broadly stable in 2025. LatAm building materials companies' EBITDA margin stabilized in 2023-2024, following the decrease from 2022, thanks to their price pass through ability and resilient demand. However, we think that the level of price increase seen in the past two years is unsustainable because of lower disposable income in the region, a still high interest rate environment, and a fierce competitive environment in major LatAm countries. As a result, we expect rated building materials entities to act prudently in terms of pricing strategies to protect volumes and market shares. Thus, for 2025 onward, we expect margins to remain broadly stable due to limited additional price increase capacity above inflation.

Overcapacity in the region suggests limited need for large investments. We estimate that capex will remain at about 4%-5% of revenues on average in LatAm. The low capex needs reflect our view that companies will operate with moderate utilization rates given the current

macroeconomic environment and high level of uncertainty on global trade activity and local political reforms.

Credit metrics and financial policy

We expect a broad continuity in terms of financial policies for rated building materials entities, particularly in terms of capital deployments (investments and shareholders' rewards). We think that most of LatAm's rated companies have the financial flexibility to absorb high-impact, low probability events while maintaining resilient credit quality, in most cases. This is possible because most rated entities start 2025 with strong balance sheets, including leverage within 2.0x-3.0x on average, or below in some cases, and with ample liquidity positions and limited financing needs in 2025, as capex growth plans and debt maturities are limited. Shareholders' rewards, in the form of dividends or share buybacks, will remain subject to leverage tolerance and FOCF generation.

In 2024, some LatAm players reconfigured their geographic footprint through noncore asset divestments (like Cemex S.A.B. de C.V. and Votorantim Cimentos S.A.), while others took the opportunity to consolidate their presence in the region like Cementos Progreso S.A., Holcim, Sika AG, Martin Marietta Materials Inc. In 2025, we expect a few more divestments and M&A transactions in LatAm, although neutral from a credit standpoint.

Key risks or opportunities around the baseline

1. Domestic and global trade policies threaten growth.

Political, economic, and trade tension risks remain high in LatAm. The risks could undermine building materials companies' growth trajectories and credit quality if investors' sentiments and fixed investments weaken beyond our expectation, despite the large housing deficit and infrastructure needs in all LatAm countries.

2. Adverse weather conditions and geopolitical risks are elevated.

Building materials entities are exposed to more frequent and higher intensity adverse weather conditions that could affect the sector's growth outlook. LatAm economies and the building materials sector could also indirectly be vulnerable to an escalation of geopolitical conflicts.

3. Persistent lack of carbon dioxide regulation in LatAm, although rated companies are moving forward.

Most rated building materials entities are progressing according to their 2030 targets, with limited investments requirements. The path to carbon neutrality will be long and likely more expensive beyond 2030.

The building materials sector's growth outlook could be challenged. Including by several domestic reforms; tougher macroeconomic conditions; and, to a lesser extent, by increasing trade protectionism maneuvers. While still uncertain and difficult to quantify at this point, we think that domestic policies and global trade uncertainties pose significant downside risks to the region's economic growth, and to our forecast for the sector. In our view, political and economic risks could lead to weaker fixed investments, higher inflation, and tighter financing conditions. Ultimately, this could result into a contraction in nonresidential and residential construction activities in the region, despite the large housing deficit and infrastructure needs in all LatAm countries. In such a scenario, we would expect a deterioration of building materials companies' operating and financial performances beyond our current estimates, and into a likely erosion of credit quality.

- **In Mexico**, the threat of changes to the United States-Mexico-Canada Agreement, scheduled for review in mid-2026, could delay fixed investments decisions. Second, U.S. immigration policy toward Mexico is also likely to be contentious under the incoming U.S. administration, which could influence proposed changes in trade policy and weaken investments, as well as remittances. This would have direct negative effects on Mexico's building materials sector. And third, recently approved Mexican reforms—such as changes to the judicial system—could also delay investment decisions until there is more clarity on the implications of those bills.
- **In Brazil**, if macroeconomic conditions deteriorate amid a higher interest rate environment to control inflation, then we think this could take a toll on construction activities, as it would directly affect household disposable incomes and mortgage rates, while infrastructure projects could progress at an even slower pace than expected.
- **In Peru**, the political environment has been extremely volatile in recent years, and any heightened political turmoil and/or economic shift from the expected ongoing economic recovery could results io weaker-than-expected investments in infrastructure projects and housing activities, undermining building materials companies' operations.
- **In Colombia and Argentina**, downside risks to our growth outlook remain elevated. The construction sector remains exposed to political and economic risks amid uncertainty over several reforms proposed by President Gustavo Petro in Colombia, while foreign reserves remain very low, and exchange rate policy is highly uncertain in Argentina.

We are also monitoring the risk of potential upward tariffs for exported goods to the U.S. The vast majority of LatAm building materials are produced and sold locally, thus we think that consequences of direct upward tariffs is limited and contained in the building materials sector. Only a small portion of revenues, if any, are oriented to exports activities as companies tends to be vertically integrated in countries they operate in. Broader macroeconomic effects and a potential erosion of financing conditions, from disruptive trade policies could inevitably affect the state of play for building materials companies in LatAm.

The LatAm building materials sector is exposed to more frequent climate-related events. Including events related to climate change and more frequent natural disasters. There have been an increasing number of climate disasters in the region, including hurricanes, droughts, and floods, among others. We think that these extreme events could resurge with higher frequency and intensity, resulting in delays in construction activities in the LatAm region, ultimately affecting building materials companies' top-line growth.

Secondary effects from global geopolitical tensions could affect performance. The LatAm building materials sector's operating and financial performance could be indirectly affected by the Israel-Hamas and Russia-Ukraine conflicts that will likely linger into 2025. Escalations in the conflicts could cause disruption in supply chains and the production of important commodities. In our view, energy prices and transportation costs, which are important input costs for building materials companies, could increase if the Israel-Hamas was intensifies and spreads across oil-producing countries in the Middle East. These input costs could hamper a continuous stabilization in operating margins, cash flows, and credit protection measures.

Carbon dioxide regulations remain limited in LatAm. However, most rated entities are moving to decarbonize their operations to prevent longer-term operating and financial risks. In LatAm, we see limited progress from governments on carbon dioxide regulations due to the reality of local economies and social state of play, and consequently political agendas. Although the timing is still hard to predict, we think that it may change in the longer run. Nonetheless, most rated companies, particularly those that have a footprint in mature markets are proactively reducing their carbon dioxide emissions with production plants by plants roadmaps. For 2025, we think

that budgeted investments for decarbonizing operations will remain manageable and will not deteriorate key credit metrics. Instead, these investment initiatives could become a crucial competitive advantage. Smaller players that make relatively slow progress in reducing emissions could suffer in the longer term, particularly if regulations are enforced and become stricter.

Industry Outlook: Asia-Pacific

Ratings trends and outlook

The outlook on the ratings of most of our rated building materials companies in Asia-Pacific are stable. Our rated companies' leading competitive position in their respective countries and sufficient financial headroom should help them manage industry headwinds and keep their creditworthiness steady.

We have put the outlook of one building materials company in China on negative in 2024. This is mainly due to the higher financial burden of the rated company's parent. The rating on our rated issuer is linked to our assessment of the parent's credit profile. All other rated companies' ratings remain unchanged supported by their financial discipline to offset demand uncertainty and profitability pressure.

Considering the slow recovery of China's property market, China-based producers will likely endure another tough year. Demand for building materials will remain subdued after a sluggish 2024. Demand for building materials in South Korea will remain under pressure. The overall construction sector sentiment remains weak with sluggish demand.

Main assumptions about 2025 and beyond

1. Stagnant downstream demand will continue to pressure demand recovery for building materials in China.

There will not likely be a meaningful recovery in demand in 2025 due to weak homebuyer confidence. We expect a further decline of property sales in 2025. The sector may only stabilize toward the second half of 2025. This means the number of new constructions will remain low and demand for building materials will remain sluggish. In addition, China's infrastructure investment growth will continue to moderate over the next 12 months with the government's focus on debt risk resolution.

2. The Korean market will likely see weak momentum due to slow construction demand.

The weak construction demand trend will continue into 2025, due to slow construction starts year-to-date in 2024, higher costs, and the weak property market. Despite some tailwinds such as interest rate cuts and property market strengths in Seoul metropolitan areas, the broader property market is likely to remain under pressure.

China-based building materials producers may endure another sluggish year in 2025 due to ongoing weakness in downstream demand, after a challenging 2024. We do not expect a meaningful recovery for the sector in 2025 as it continues to suffer from the fragile recovery of the Chinese property sector.

China's property sales could only stabilize toward the second half of 2025. However, that will depend on the government's continued support for funding conditions for developers and efforts to reduce inventories. S&P Global Ratings' property team estimates national property sales will further decline to Chinese renminbi (RMB) 8 trillion-RMB8.5 trillion in 2025, after declining to about RMB8.5 trillion-RMB9 trillion in 2024.

Structural obstacles still hinder major recovery in China's property market. The change in market structure with an increasing share of secondary-market sales and declining presale model will pressure new construction starts. China's new housing construction area decreased

by 23% year on year in the first 10 months of 2024. Fewer new construction activities will translate into an extended low demand for building materials and keep prices under pressure.

Due to weak demand, the average price of cement experienced a year-on-year decline of 7.2% over the first three quarters of 2024. The cement output decreased by 11%, the lowest in the same period since 2010. Even under moderating coal prices, the total profit of the cement industry dropped by 65% over the same period.

China's infrastructure investment growth will moderate over the next 12 months. We expect infrastructure spending will stay substantial, to meet national strategies on strengthening the transportation system, energy transition, disaster prevention, and reconstruction after disasters. That said, the central government is increasingly selective in approving new projects. Also, authorities have mandated highly indebted local governments to focus on debt risk resolution.

We expect the demand for building materials in South Korea will remain soft. This is due to the weak property market. That weakness will extend to the construction market in 2025, with low construction starts and poor consumer sentiment. While there was some property market strengthening in Seoul metropolitan areas, in terms of both pricing and transaction volume in 2024, it was specific to certain areas. The broader regions and regional cities are still under meaningful pressure with limited improvement. Ongoing interest rate cuts by the Bank of Korea are a tailwind to the property market, but the government's tighter lending regulations will likely temper the effect to some degree.

Credit metrics and financial policy

We forecast that the credit metrics of our three rated companies will remain resilient in 2025. The satisfactory competitive position and sufficient financial headroom of most rated building materials companies in Asia-Pacific will help them manage demand and keep financial performance steady.

There is a diverging outlook for the two building materials companies we rate in China.

Anhui Conch Cement Co. Ltd. (Conch, A/Stable/--) has a solid balance sheet. It also has ample cash on hand to protect it against a potential extended weakness in the demand for building materials. The company's leading position in China's highly competitive cement market with effective cost control allows it to maintain more resilient performance compared with peers.

BNBM (A-/Negative/--) will maintain a minimal leverage. This is supported by its healthy earnings and cash flow attributed to the company's dominant market position in the gypsum board market, with strong pricing power and the ability to pass-through costs. The recovery of demand for gypsum board may fare better than that of cement, with support from rising renovation needs stemming from increasing secondary market sales.

Our outlook on Beijing New Building Materials Public Ltd. Co. (BNBM) is negative. This is due to the weakening credit profile of its parent China National Building Material Group Co. Ltd. (CNBM). The prolonged industry downcycle will strain CNBM's earnings and profitability. CNBM is a diversified building materials producer but focuses on cement. BNBM is a core subsidiary of CNBM and the rating on the company is linked to our assessment of the parent's credit profile.

We expect margin recovery for the China-based players could be gradual. Even under moderating coal prices. We expect domestic coal prices to decline over the next two years on loosening supply and weakening demand due to rising substitution from renewable energy. Yet, sluggish demand in China could continue to weigh on building materials prices.

Chinese rated companies will be disciplined in spending amid weak industry conditions. We expect that companies' financial policy will remain prudent and will refrain from aggressive

expansions. A major deterioration in these companies' credit metrics is unlikely as both companies have a solid balance sheet with ample cash on hand.

We expect KCC Corp. (BB+/Stable/--) will likely maintain a steady operating performance. Even under a weaker market situation in 2025. This is largely thanks to the company's strong pricing power in the building materials sector, which helps them sustain profitability amid modest revenue growth. KCC holds a leading position in South Korea's domestic building materials market and has the largest domestic market shares in coating and gypsum boards.

Healthy growth of the coating materials business and recovery of silicone earnings should also support KCC's steady performance in 2025. We expect a gradual improvement in the company's leverage burden in terms of debt to EBITDA in 2025-2026, compared with 2024.

Key risks or opportunities around the baseline

1. A fragile path to stabilization of the property market in China hinders demand recovery.

The Chinese building materials sector's largest downside risks result from the property sector. A further slump in the property sector will hit the resumption of construction activities. This could exacerbate the already challenging operating conditions in the building materials sector, which struggles with low demand and a limited ability to pass on costs.

2. Upcoming inclusion of cement production in China's national carbon emission trading scheme will benefit industry leaders.

Our rated entities are industry leaders and should fare better compared with peers when the scheme is officially launched. This is due to their lower carbon emissions and more sufficient financial capacity to comply with environmental upgrades and transformation. An elimination of peers with high emission could accelerate further shrinkage of production capacity and may ease oversupply.

3. Weak property markets in the regional cities is a risk to the Korean building materials sector.

Korean domestic construction markets remain sluggish, and the polarizing trend in the property markets between the Seoul metropolitan area and regional cities continue. These could drive down the domestic construction project starts further, which, in turn, will weaken the demand for the building materials market, especially in the private sector.

The fragile path to stabilization for China's property sector remains the biggest risk. This sector accounts for over one-third of the nation's cement usage. Our base case assumes the property market could stabilize toward the second half of 2025 if the government further supports developers' funding conditions and continues to help destock inventories. However, failure to boost homebuyers' and developers' confidence could result in an ongoing weakness with low land acquisition and new construction activities.

China plans to include cement production in the national carbon emissions trading market. This would be beneficial for industry leaders. While the quotas will be delivered to cement makers cost-free at the initial stage before 2026, we think that Conch's good cost structure will be better positioned than its peers to absorb additional cost when the carbon quota starts trading at cost at a later stage. Building materials industry leaders are also more likely to benefit from the introduction of carbon pricing based on their lower emission and an associated acceleration of industry consolidation. Those that cannot meet national standards will likely shut down or be acquired by stronger players who can meet the standards.

Conch's solid balance sheet means the company has ample financial resources to invest further in technological upgrades and research and development for lowering emission and energy saving. The company could also promote replacement of alternative raw materials and fuels, such as solid waste, and increase the utilization of new energy.

We expect the new policy would pressure weaker player as they already struggle with an extended period with weak profitability. Weaker peers may be eliminated, aiding China in achieving its plan of reducing total cement production capacity to 1.8 billion tons by 2025 from 2.1 billion tons. An acceleration of eliminating excess capacity could help to ease oversupply and improve industry dynamics.

We forecast the key risk in the Korean market to be property market weakness. The polarizing trend in the property market in the Seoul metropolitan area and regional cities will likely continue into 2025, as we see limited recovery in the regional areas. This could lead to a weaker demand from regional construction companies, especially in the private sector. Prolonged property market weakness, which leads to lower number of new constructions starts, will pose downside risks to the building materials demand. Also, potential risks associated with project financing loans and the weaker credit quality of small and midsize construction companies could represent additional downside risks.

Related Research

- S&P Global Ratings Metal Price Assumptions: Prices Hold Steady Despite Headwinds, Oct. 16, 2024
- Beijing New Building Materials Outlook Revised To Negative On Weakening Industry Dynamics; 'A-' Rating Affirmed, July 8, 2024
- Decarbonizing Cement Part One: How EU Cement Makers Are Reducing Emissions While Building Business Resilience, Oct. 27, 2022
- Decarbonizing Cement Part Two: Companies Could See Pressure On Ratings As The EU Firms Up Carbon Rules, Oct. 27, 2022

Industry Forecasts: Building Materials

Chart 20

Revenue growth (local currency)

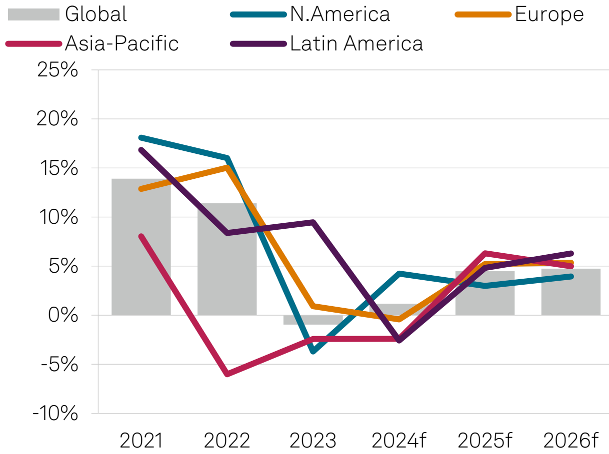


Chart 21

EBITDA margin (adjusted)

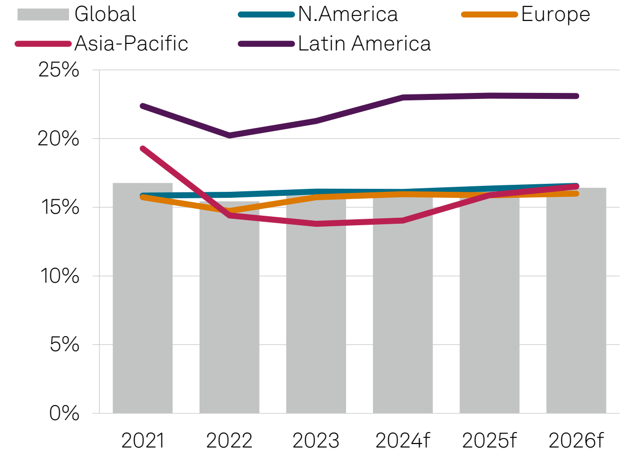


Chart 22

Debt / EBITDA (median, adjusted)

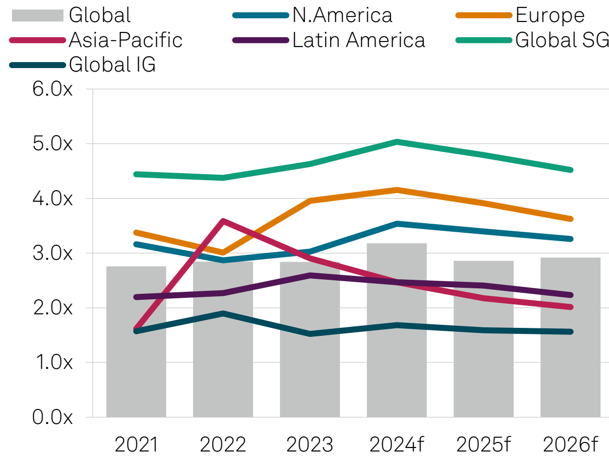
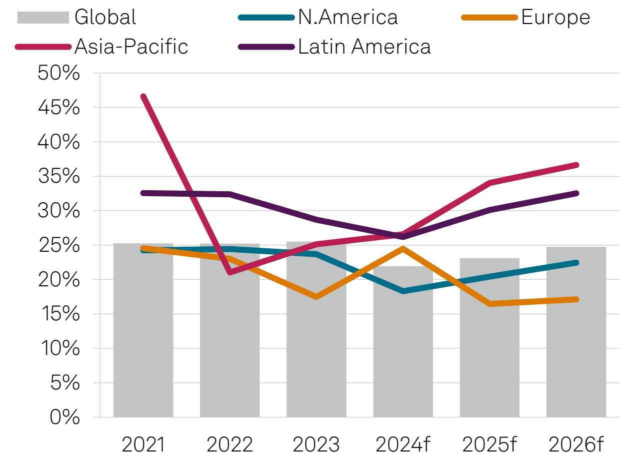


Chart 23

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = Forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Building Materials

Chart 24

Cash flow and primary uses

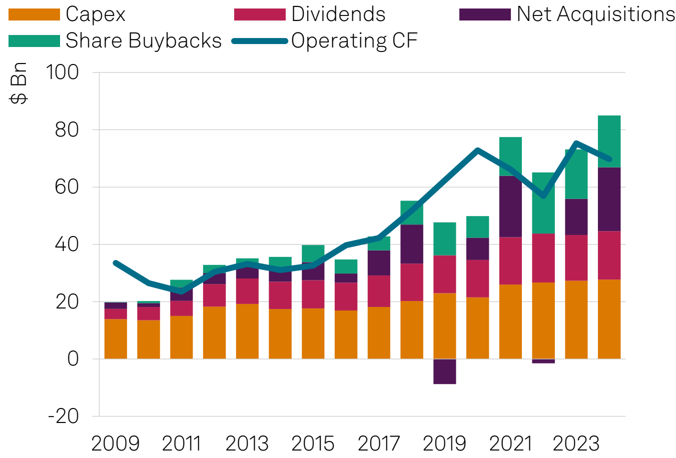


Chart 25

Return on capital employed

Chart 26

Fixed- versus variable-rate exposure

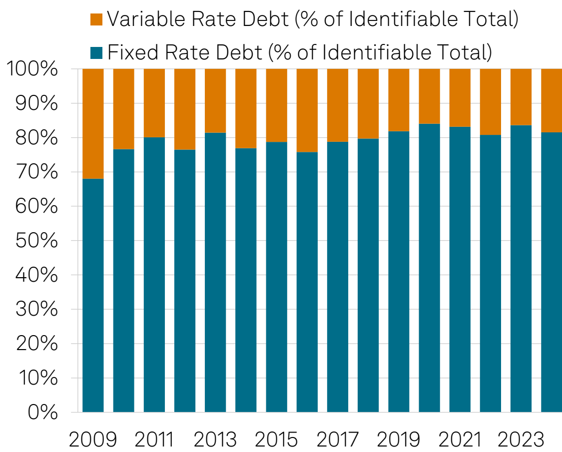


Chart 27

Long-term debt term structure

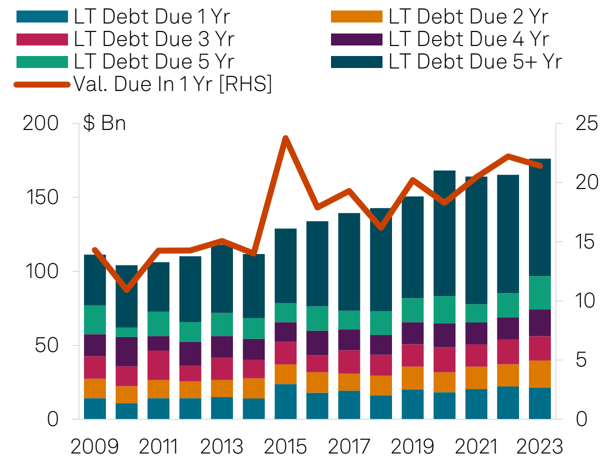


Chart 28

Cash and equivalents / Total assets

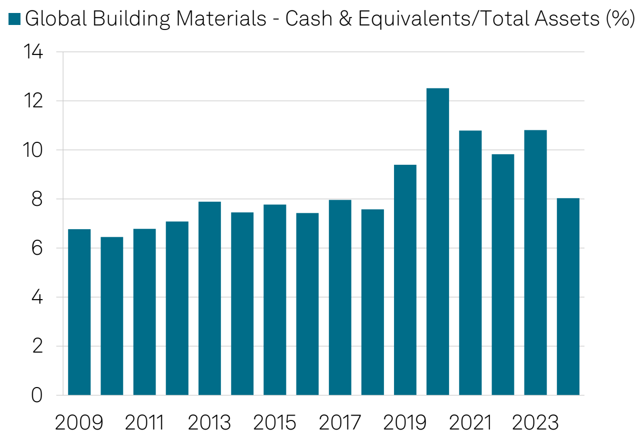
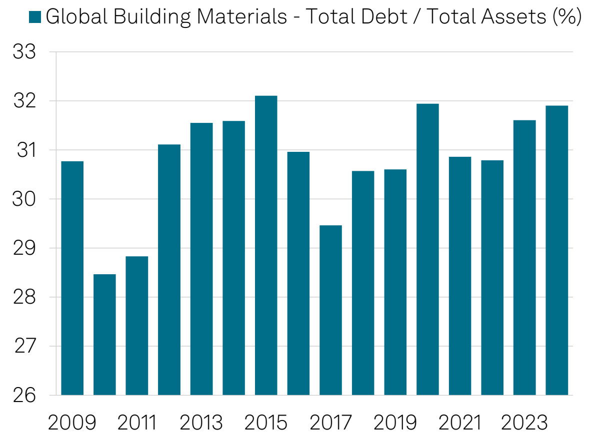


Chart 29

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.

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