Industry Top Trends Update

Building Materials

The sector should hold up better than after the last crisis

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What's changed post-COVID?

Moderate exposure to the current recession. We have taken negative rating actions on about one-third of the sector—mostly revising outlooks to negative and mostly on speculative-grade companies in the 'B' rating category.

About two-thirds of speculative-grade companies have negative outlooks. This is because they entered the crisis with high financial leverage following recent rounds of refinancing, which means reduced rating headroom ahead of the downturn. Also, most of them are smaller and less geographically diversified than investment-grade companies, so more sensitive to the current recession.

All investment grade companies still have stable outlook. This is because they entered the crisis with solid balance sheets as result of strong operating performances in 2019, and quickly adapted their financial policy to the downturn.

What is the likely path to recovery?

A rebound to pre-pandemic levels in late 2022. The sector is among those taking a midsize hit from pandemic-induced shocks and should gradually recover in 2021 and 2022. We anticipate revenue declines of 15%-20% in 2020 for rated companies.

The recovery should be quicker than after the 2009 financial crisis. This reflects governments' and the European Commission's more rapid and effective fiscal stimulus in 2020. It also reflects the ECB's continued expansionary monetary policy, and accelerated demand by households for sustainable products due to new tax incentives to support green building renovation.

The recovery path will be uneven, however. Companies focused on innovative and energy-saving building products should benefit from a quick rebound, compared with traditional building products. We expect companies to invest more than in the past to modernize product offerings with green and sustainable solutions.

What are the key risks around the baseline?

Weak consumer confidence in 2021. This could delay growth in residential construction, one of two main contributors to recovery in the sector in 2021-2022 in our baseline, and dampen the success of tax incentives to promote green building.

Delays to public infrastructure investments. This may reduce Europe's construction backlog in 2021-2022 and constrain the civil engineering segment, the other main contributor of building materials recovery in 2021-2022 in our baseline.

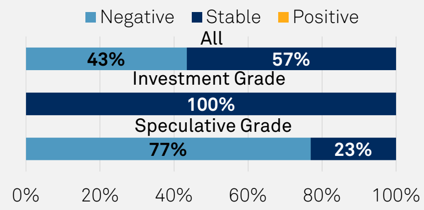
A weak volume rebound. This would likely constrain speculative-grade companies' free operating cash flows and put pressure on ratings.

A turn to more aggressive financial policies. This happening before credit metrics have fully recovered is a key risk for investment-grade companies.

Latest Related Research

- Europe's Construction And Building Materials Sector Should Hold Up Better Than After The Last Crisis, June 16, 2020
- [Building Material And Construction Webcast](), June 18, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	10	13	23
Downgrades	0	1	1
Upgrades	0	0	0

Ratings data as of end-June, 2020

COVID-19 Heat Map

Building Materials	
COVID-19, Recession, and O&G Impact	Moderate
Potential Negative Long-Term Industry Disruption	--

2020 Estimates v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
10% to 15%	15% to 25%	5% to 10%

2021 Estimates v. 2019	
Revenue Decline	EBITDA Decline
0 to 10%	0 to 10%