S&P Global Ratings

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# ESG Credit Indicator Report Card: Engineering And Construction

**August 28, 2023**

(Editor's Note: S&P Global Ratings is no longer publishing or updating ESG credit indicators. See https://www.spglobal.com/_assets/documents/ratings/esg_credit_indicators_mr.pdf for more information.)

We are disclosing in this report our ESG credit indicators for the global engineering and construction sector. Our ESG credit indicators provide additional disclosure and transparency at the entity level and reflect our opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are applied after the credit rating has been determined. They are not a sustainability rating or an S&P Global Ratings ESG evaluation.

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## Sector Snapshot - Engineering And Construction

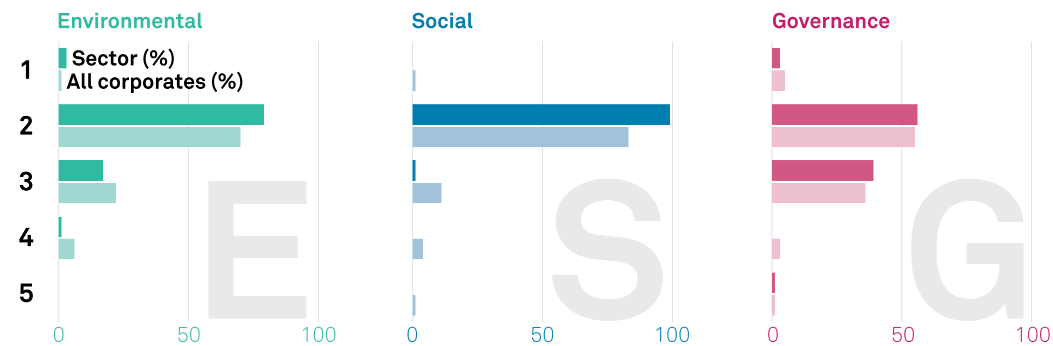
### Most Influential ESG Factors

**Climate transition risk**
We see potential impact from the transition to a low-carbon economy, as project demand trends shift to customer end-markets with lower emissions.

**Governance structure**
Financial sponsors control about 30% of issuers, which has a moderately negative influence on our governance assessment given their focus on maximizing shareholder returns.

**Risk management, culture and oversight**
The inherent complexity of projects exposes companies to contingent liabilities, and litigation risks grow in tandem with challenges to complete a project profitably and on time. Furthermore, complex groups with a presence in high-risk countries can face limits on the ability to move cash flow within the group, thus limiting the potential benefit of project and geographic diversification.

### Distribution Of ESG Credit Indicators




**1** = positive | **2** = neutral | **3** = moderately negative | **4** = negative | **5** = very negative.
Our opinion of the influence of ESG factors on our credit rating analysis is reflected on a 1-5 scale. Source: S&P Global Ratings.


## Key Takeaways

- The engineering and construction (E&C) industry has exposure to governance issues due to the inherent complexity of projects, which exposes companies to contingent liabilities and litigation risks.
- We consider environmental risks related to climate transition and contractor end-market exposure through our forward-looking qualitative assessments of secular change to a low-carbon economy, which could shift end-market demand and growth trends.
- We also consider social factors such as safety management, but rated companies typically adopt satisfactory training and policies, containing extra costs related to health and safety. Additionally, the high reliance on labor and the ability to find and keep skilled labor, including at subcontractors, and particularly at expected cost levels, directly affects the profitability of construction projects.

## Our ESG Credit Indicators

Table 1

### Environmental Credit Indicators

| Credit indicator | Definition |
|---|---|
| E-1 | Environmental factors are, on a net basis*, a positive consideration in our credit rating analysis, affecting at least one analytical component§. |
| E-2 | Environmental factors are, on a net basis*, a neutral consideration in our credit rating analysis. |
| E-3 | Environmental factors are, on a net basis*, a moderately negative consideration in our credit rating analysis, affecting at least one analytical component§. |
| E-4 | Environmental factors are, on a net basis*, a negative consideration in our credit rating analysis, affecting more than one analytical component§ or one severely. |
| E-5 | Environmental factors are, on a net basis*, a very negative consideration in our credit rating analysis, affecting several analytical components§ or one very severely. |

*"On a net basis" means that we take a holistic view on exposure to environmental factors and related mitigants. §Analytical components include criteria scores and subscores (including the key analytical elements to assess them). "Affecting" means leading to a different outcome for an analytical component or lower/higher headroom for an analytical component.

In our ESG credit ratings criteria "Environmental, Social, And Governance Principles In Credit Ratings," Oct. 10, 2021, we articulate the principles that S&P Global Ratings applies to incorporate environmental, social, and governance (ESG) credit factors into its credit ratings analysis. In that criteria we define ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. We note that when sufficiently material to affect our view of creditworthiness, ESG credit factors can influence credit ratings.

In our commentary "ESG Credit Indicator Definitions And Application," Oct. 13, 2021, we discuss the introduction of ESG credit indicators as a complement to our existing credit rating analysis. Whereas our ESG criteria seek to enhance transparency in how and where we capture ESG factors in credit ratings, our ESG credit indicators provide additional disclosure by reflecting our opinion of how material the influence (on a 1-5 scale) of ESG factors is on our credit rating analysis. We assess these indicators on a net basis, meaning that we take a holistic view of exposure to environmental, social and governance factors and related mitigants on the credit rating analysis. They are applied after the rating has been determined. They are not a sustainability rating or an S&P Global Ratings ESG evaluation.[1]

Accordingly, the application--or change--of an ESG credit indicator cannot in itself trigger a credit rating or outlook change. However, the impact of ESG factors on creditworthiness could contribute to a rating action, which in turn could lead to a change in the ESG credit indicator. Through the release of ESG credit indicators, we aim to further delineate and summarize the relevance of ESG factors to our credit analysis by isolating our opinion of their credit influence and separating it from the non-ESG factors affecting the credit rating.

The scale for environmental credit indicators is identical for social and governance credit indicators. It has a negative skew, which reflects our view that environmental, social and governance considerations (including risks outside of a company's control) have a negative influence more often than a positive one. An ESG credit indicator of E-2, S-2, or G-2 means that it is currently a neutral consideration in our credit rating analysis. This does not necessarily mean that ESG factors are not relevant, rather that they are currently not sufficiently material to alter the credit rating analysis or that positive ESG considerations are offset by ESG-related risks.

Also, entities may have identical ESG credit indicators, even if they diverge on ESG characteristics and performance. This may be the case because we only incorporate in our credit rating analysis those ESG factors that materially influence creditworthiness and for which we have sufficient visibility and certainty or because the differentiation in ESG characteristics is not in our view sufficiently material to warrant a different ESG credit indicator outcome.

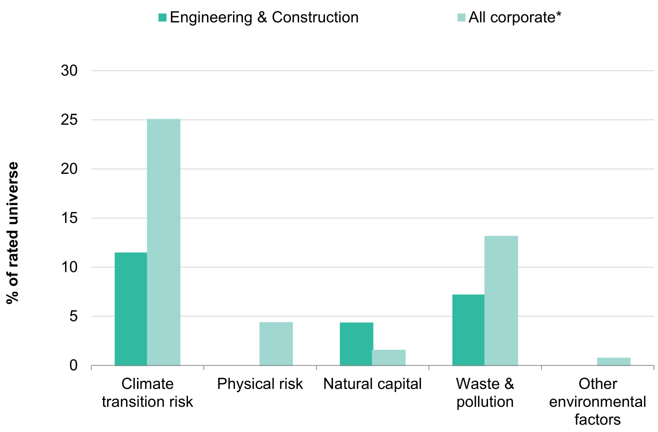
[1] ESG credit indicators are separate and distinct from S&P Global Ratings ESG evaluations. An S&P Global Ratings ESG evaluation is not a credit rating or component of our credit rating methodology. Rather, it indicates our view of an entity's relative exposure to observable ESG-related risks and opportunities, and our qualitative opinion of the entity's long-term sustainability and readiness for emerging trends and potential disruptions. Moreover, the ESG evaluation considers the impacts and dependencies on the environment and society across the value chain for a wide range of stakeholders, regardless of current credit materiality. (For more on ESG evaluations, see "Environmental, Social, And Governance Evaluation Analytical Approach," Dec. 15, 2020.)

## Sector Overview

## Environmental Credit Factors

Chart 1

**Key Environmental Factors Distribution**

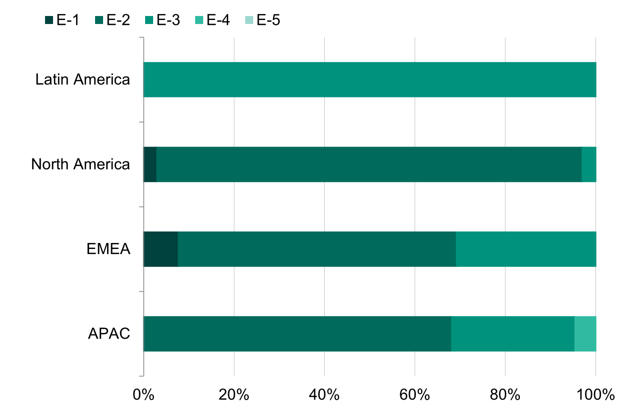



*Estimate as of date of publishing. Source: S&P Global Ratings.



Chart 2

**Environmental Credit Indicators--Breakdown By Region**




Source: S&P Global Ratings.



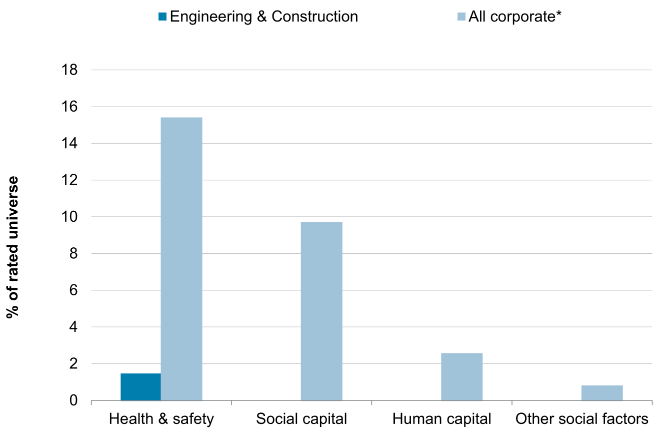
In the E&C sector, we consider environmental risks related to climate transition. We see potential impact of the transition to a low-carbon economy, as contractor project demand trends shift toward customer end-markets with lower emissions. Energy transition and decarbonization trends modify the economics of projects, in turn affecting demand dynamics for contractors. These trends influence creditworthiness, as demand for renewables projects grows, displacing demand for projects related to polluting assets.

We believe waste and pollution have limited impact on the sector, as E&C companies execute projects on behalf of asset or project owners, where the residual environmental liabilities reside. Regarding physical risks, E&C companies factor-in some level of weather-related delays to complete construction projects. This generally accommodates the financial impact of weather delays, although extreme weather can cause project-cost overruns. Risk of remediation for biodiversity or restitution for incorrect land use is usually low for the construction of high-rise buildings but can be more relevant for the construction of civil projects and industrial projects.

## Social Credit Factors

Chart 3

**Key Social Factors Distribution**

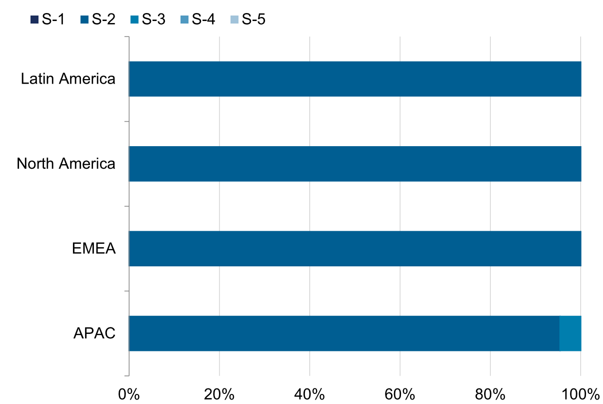



*Estimate as of date of publishing. Source: S&P Global Ratings.



Chart 4

**Social Credit Indicators--Breakdown By Region**




Source: S&P Global Ratings.



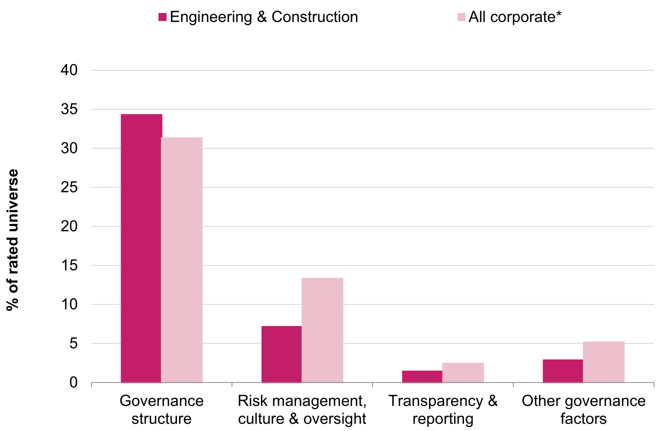
We consider social factors such as safety management, but rated companies typically adopt satisfactory training and policies, containing extra costs related to health and safety. E&C companies track and manage incidents and usually have specific programs to educate their workforces on safety.

Regarding social capital, the high reliance on labor and the ability to find and keep skilled labor, including at subcontractors, particularly at expected cost levels, directly affects the profitability of construction projects. In addition, given the exposure to unions in some regions, E&C companies can face strikes, which increase the cost and time to complete projects. However, this has not weighed on the indicators of rated entities, as most are neutral to creditworthiness.

## Governance Credit Factors

Chart 5

**Key Governance Factors Distribution**

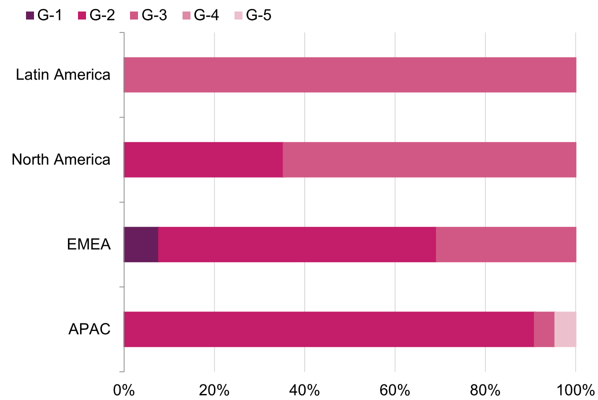



*Estimate as of date of publishing. Source: S&P Global Ratings.



Chart 6

**Governance Credit Indicators--Breakdown By Region**




Source: S&P Global Ratings.



We assess governance factors and apply indicators to each company relative to our assessment of its management and governance. Roughly one-third of governance indicators are in the G-3 category for the sector, mainly due to these entities being owned by private-equity firms, which we view as a generally moderately negative consideration for the credit analysis. This is because these companies' highly leveraged or aggressive financial risk profiles point to corporate decision-making that prioritizes the interests of the controlling owners, given the focus on maximizing shareholder returns and often finite holding periods.

With respect to risk management, culture, and oversight, the inherent complexity of projects exposes companies to contingent liabilities, and litigation risks grow in tandem with challenges to complete a project profitably and on time. These challenges include client cancellations and delays, change orders, and subcontractor risk. Among our rated companies, litigation is more common in emerging countries, where the legal framework is usually weaker; however, developed countries have similar but less pronounced risks. The sector is also exposed to bribery, corruption, and anticompetitive practices because of the magnitude of the contracts and the competitive process necessary to secure contracts with both private and public clients. Ethical breaches typically result in investigations by public authorities; and large fines, settlement costs, and reputational damage can affect financial performance. Furthermore, complex groups with a presence in high-risk countries can face limits on the ability to move cash flow within the group, thus limiting the potential benefit of project and geographic diversification. Transparency related to advance payments and working capital swings is another area of our governance focus.

# ESG Credit Indicators By Issuer

Table 2

## ESG Credit Indicators By Issuer For North America

| | Credit indicator | | | |
|---|---|---|---|---|
| **Issuer** | **E** | **S** | **G** | **ESG credit factors** |
| AECOM | E-2 | S-2 | G-2 | N/A |
| APi Group Corp. | E-2 | S-2 | G-2 | N/A |
| Aegion Corp. | E-2 | S-2 | G-3 | Governance structure |
| Aptim Corp. | E-2 | S-2 | G-3 | Governance structure |
| ArchKey Holdings Inc. | E-2 | S-2 | G-3 | Governance structure |
| Artera Services LLC | E-2 | S-2 | G-3 | Governance structure |
| Atlas Intermediate Holdings LLC | E-2 | S-2 | G-3 | Governance structure |
| Brand Industrial Services Inc. | E-2 | S-2 | G-3 | Governance structure |
| Centuri Group Inc. | E-2 | S-2 | G-2 | N/A |
| Crown Subsea Communications Holding Inc. | E-2 | S-2 | G-3 | Governance structure |
| Dycom Industries Inc. | E-2 | S-2 | G-2 | N/A |
| EMCOR Group Inc. | E-2 | S-2 | G-2 | N/A |
| Fluor Corp. | E-2 | S-2 | G-3 | Risk management, culture, and oversight; Governance structure |
| Global Infrastructure Solutions Inc. | E-2 | S-2 | G-2 | N/A |
| Great Lakes Dredge & Dock Corp. | E-2 | S-2 | G-2 | N/A |
| Infrastructure and Energy Alternatives Inc. | E-1 | S-2 | G-2 | Climate transition risks |
| MasTec Inc. | E-2 | S-2 | G-2 | N/A |
| Michael Baker International LLC | E-2 | S-2 | G-3 | Governance structure |
| Osmose Utilities Services Inc. | E-2 | S-2 | G-3 | Governance structure |
| PLH Group Inc. | E-2 | S-2 | G-3 | Governance structure |
| Pike Corp. | E-2 | S-2 | G-3 | Governance structure |
| QualTek LLC | E-2 | S-2 | G-3 | Governance structure |
| Quanta Services Inc. | E-2 | S-2 | G-2 | N/A |
| RailWorks Corp. | E-2 | S-2 | G-3 | Governance structure |
| Rockwood Service Corp. | E-2 | S-2 | G-3 | Governance structure |
| SNC-Lavalin Group Inc. | E-2 | S-2 | G-3 | Governance structure |
| STV Group Inc. | E-2 | S-2 | G-2 | N/A |
| TRC Cos. Inc. | E-2 | S-2 | G-3 | Governance structure |
| Tutor Perini Corp. | E-2 | S-2 | G-2 | N/A |
| USIC Holdings Inc. | E-2 | S-2 | G-3 | Governance structure |

Table 3

## ESG Credit Indicators By Issuer For Latin America

| Issuer | Credit indicator | | | ESG credit factors |
|---|---|---|---|---|
| | E | S | G | |
| San Martin Contratistas Generales S.A. | E-3 | S-2 | G-3 | Climate transition risks; Governance structure |

Table 4

## ESG Credit Indicators By Issuer For Europe, The Middle East, And Africa

| Issuer | | Credit indicator | | | ESG credit factors |
|---|---|---|---|---|---|
| | | E | S | G | |
| ACS Servicios Comunicaciones y Energia S.L. | Spain | E-1 | S-2 | G-2 | N/A |
| ACS, Actividades de Construccion y Servicios SA | Spain | E-2 | S-2 | G-2 | N/A |
| Ferrovial S.A. | Spain | E-2 | S-2 | G-1 | Risk management, culture, and oversight |
| HOCHTIEF AG | Germany | E-2 | S-2 | G-2 | N/A |
| Sarens Bestuur N.V. | Belgium | E-3 | S-2 | G-3 | Climate transition risks; Risk management, culture, and oversight |
| Strabag SE | Austria | E-2 | S-2 | G-2 | N/A |
| Webuild S.p.A. | Italy | E-2 | S-2 | G-3 | Risk management, culture, and oversight |

Table 5

## ESG Credit Indicators By Issuer For Asia-Pacific

| Issuer | Credit indicator | | | ESG credit factors |
|---|---|---|---|---|
| | E | S | G | |
| Beijing Construction Engineering Group Co. Ltd. | E-2 | S-2 | G-2 | N/A |
| China Aluminum International Engineering Corp. Ltd. | E-2 | S-2 | G-2 | N/A |
| China Metallurgical Group Corp. | E-2 | S-2 | G-2 | N/A |
| China Railway Construction Corp. Ltd. | E-2 | S-2 | G-2 | N/A |
| China Railway Group Ltd. | E-2 | S-2 | G-2 | N/A |
| China State Construction Engineering Corp. Ltd. | E-2 | S-2 | G-2 | N/A |
| China State Construction International Holdings Ltd. | E-2 | S-2 | G-2 | N/A |
| Chongqing Nan'an Urban Construction & Development (Group) Co. Ltd. | E-2 | S-2 | G-2 | N/A |
| CIMIC Group Ltd. | E-3 | S-2 | G-2 | Waste and pollution |
| CTCI Corp. | E-2 | S-2 | G-2 | N/A |
| Metallurgical Corp. of China Ltd. | E-2 | S-2 | G-2 | N/A |
| Nanjing Yangzi State-Owned Assets Investment Group Co. Ltd. | E-2 | S-2 | G-2 | N/A |
| Perenti Global Ltd. | E-3 | S-3 | G-2 | Waste and pollution; Health and safety |
| Power Construction Corp. of China | E-2 | S-2 | G-2 | N/A |
| Serba Dinamik Holdings Bhd. | E-3 | S-2 | G-5 | Climate transition risks; risk management, culture, and oversight; transparency and reporting |

Table 5

## ESG Credit Indicators By Issuer For Asia-Pacific (cont.)

| | Credit indicator | | | |
|---|---|---|---|---|
| **Issuer** | **E** | **S** | **G** | **ESG credit factors** |
| Shanghai Construction Group Co. Ltd. | E-2 | S-2 | G-2 | N/A |
| Thiess Group Holdings Pty Ltd. | E-4 | S-2 | G-3 | Waste and pollution; Climate transition risks; Governance structure |
| Ventia Services Group Ltd. | E-2 | S-2 | G-2 | N/A |
| Worley Ltd. | E-3 | S-2 | G-2 | Climate transition risks |
| Yangzhou Economic and Technological Development Zone Development Corp. | E-3 | S-2 | G-2 | Natural capital |

This report does not constitute a rating action.