ESG Research

ESG Materiality Map
Building Materials

May 18, 2022

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This report does not constitute a rating action

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In line with the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, S&P Global Ratings is publishing research on the ESG materiality map for the building materials sector. We provide an illustration, at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. The materiality map research does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis.

Building Materials Sector

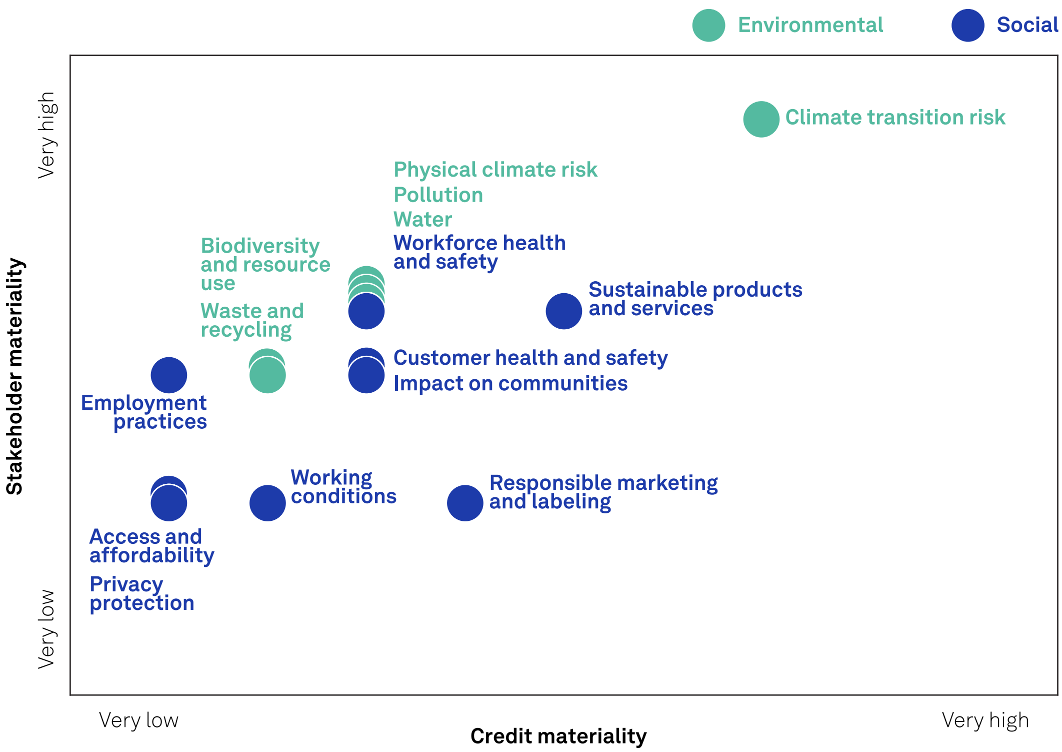
Building materials companies derive most of their revenues from the manufacture, distribution, and sale of building materials and products. Building materials include basic construction products such as cement, bricks, concrete, and aggregates, as well as finished goods such as heating and cooling systems, wallboard, roofing materials, plumbing fixtures, and other goods used in the repair, maintenance, and remodeling of buildings.

Key Takeaways

- Because the building materials sector is very diverse, only a few environmental and social factors are highly material for the overall sector. For most factors, materiality varies by subsector.
- Climate transition risks and sustainable products and services are the most material factors for both stakeholders and credit due to the sector's high-carbon intensity, as well as increasing regulatory and public pressure to transition to lower-carbon economic activities and products with reduced lifecycle impacts on health and the environment.
- Other factors with relatively high stakeholder materiality include water management, biodiversity and resource use, and employee health and safety. The materiality of these factors for credit is lower as financial impacts have been typically well managed so far.

See materiality map on the following page.

ESG Materiality Map For The Building Materials Sector



The materiality map provides an illustration at a point in time, of our findings on the relative materiality of certain environmental and social (E&S) factors, from both the stakeholder and credit perspectives, for the sector. It does not represent any new analytical approach to the treatment of E&S factors in our credit ratings. See our ESG Criteria for more information on how we incorporate the impact of ESG credit factors into our credit ratings analysis. Source: S&P Global Ratings.

How To Read The ESG Materiality Map

The stakeholder materiality (Y axis) reflects our assessment of the relative level of impacts and dependencies of the sector on the environment, society, and economy.

The credit materiality (X axis) reflects our assessment of the relative level of potential and actual credit impact for the sector. The credit implications for the factors positioned on the left side to the middle of the X-axis would be more limited and absorbable. On the right side, there is higher potential for these implications to be more disruptive. We assess credit implications for an entity based on its individual characteristics.

Assessing E&S factors' materiality: We consider both the likelihood of the impact from a given factor, as well as the magnitude of the impact. The materiality of the factors varies depending on the perspective (stakeholder or credit) as well as the evolving and dynamic interactions between these two dimensions.

The main areas of the map:

- The upper-right quadrant displays the most material, on a relative basis, E&S factors identified for the sector from both a stakeholder and credit perspective.
- The upper-left quadrant presents factors that are more material from a stakeholder than credit perspective. These factors have the potential to become more material from a credit perspective.
- The bottom-left quadrant shows factors that are less material for both stakeholders and credit. Their materiality may evolve over time and this dynamic may not be linear.

Examples Of Material Factors

Below we provide the rationale of some of the material factors to illustrate the above findings.

Climate transition risk

Climate transition is the most material factor for the sector from both the stakeholder and credit perspectives. The sector is a major contributor to global greenhouse gas emissions, with the cement subsector alone accounting for about 7% of CO_2 emissions according to the IEA. Cement manufacturers' carbon intensity ratio is 10x the average for the building material sector.
The sector's contributions to global climate change affect many stakeholders across the value chain, including carbon that is embedded in buildings. With the transition to a low-carbon economy, material credit impacts are most likely in high-emitting subsectors such as cement, where greater cost variability, including from potential carbon taxes and energy prices, will likely have material cost impacts over the medium term. These impacts depend on a company's ability to reduce or offset emissions and regional variation in regulation. Decarbonization can be achieved through significant investments to improve plants' thermal efficiency and greater use of alternative fuels, such as biomass. However, carbon neutrality requires a more significant leap to carbon capture and storage, which is still in the prototype stage and will require significant infrastructure investments to scale, as well as increased use of recycled materials or low-clinker products.

Sustainable products and services

Rising demand for sustainable building products and services across the sector makes this factor material from both stakeholders and credit perspective. Having products with less environmental or health impacts is the main concern for stakeholders. This stems from greater awareness of product lifecycle environmental impacts throughout the sector's value chain and potential health impacts from hazardous chemicals in building materials. Additionally, several developed countries are revising their industrial policies and regulations to emphasize recycling building materials, endorsing light construction, and promoting energy-efficient buildings to reduce environmental effects. From the credit viewpoint, sustainable products can drive revenue growth, particularly for the most innovative players, but would require the broader industry to adapt its product offerings and invest more in innovation. We believe that demand and prices related to sustainable technologies will remain high for the foreseeable future.

Pollution And Water

Air, water, and land pollution and water use that can occur in manufacturing or downstream is a moderately material concern for stakeholders, and less so for credit. For stakeholders, pollution and water use can affect local communities' well-being and harm local ecosystems if improperly managed. From the credit perspective, impacts would likely be low because the sector has made strides reducing pollution to conform to regulation, and the issue is generally well managed in most regions, while water costs or access issues are typically not material.

Workforce health and safety

Workforce safety is material to stakeholders but with generally limited credit materiality.
For stakeholders, the sector has relatively high injury and fatality rates during manufacturing operations--a negative for employees' and contractors' well-being--though exposure varies by

subsector based on the manufacturing activity. For credit, the industry, particularly the heavy side, is more sensitive to concerns around managing employee safety. This shouldn't affect them financially, though, since companies typically have satisfactory policies and standards and extra costs related to health and safety are often not substantial.

What is our approach to research on the ESG materiality map?

Referring to the research report "Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors," published on May 18, 2022, this research is built on the ESG materiality concept that considers ESG issues as material when they could affect stakeholders, potentially leading to material direct or indirect credit impact on entities. It considers that all businesses, through their activities and interactions, impact and depend, directly or indirectly, on stakeholders such as the environment (natural capital), society (human and social capital), and economy (financial capital). Using this ESG materiality concept, S&P Global Ratings has worked toward identifying a common, global, cross-sector set of E&S factors that we believe are material to stakeholders, and either are already, or have the potential to become, credit material for entities. The materiality map we propose provides an illustration at a point in time, of our findings on the relative materiality of those factors, from both the stakeholder and credit perspectives.

How does the sector ESG materiality map relate to credit ratings or ESG evaluations?

The sector materiality map is a visual representation of the factors that we consider impactful to the sector from a stakeholder and credit perspective for the purposes of this research. It does not represent any new analytical approach to the E&S factors in our credit ratings.

The relative materiality of the factors indicated on the materiality maps may inform the E&S Risk Atlas scores and the weights of the E&S factors used in ESG evaluations.

They may also inform our discussions with issuers on those factors' existing or potential credit materiality.

Related Research

- Materiality Mapping: Providing Insights Into The Relative Materiality Of ESG Factors, May 18, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- ESG Evaluation Analytical Approach, Dec. 15, 2020