

# Building Materials

## Credit stability on a weaker foundation

This report does not constitute a rating action.

### What's changed?

**Slowing revenue growth.** We still expect revenue across the sector will remain flat or decline by low single-digits in 2024 due to elevated interest rates and persistent inflation. Furthermore, as interest rates remain higher for longer, we expect repair and remodel spending to decline modestly as consumers delay large projects. However, tailwinds from certain nonresidential and new residential construction activity will persist in 2024, albeit less than in recent years.

**Industry consolidation and falling leverage** have propelled recent positive rating actions in the sector. Nonetheless, given the concentration of private equity ownership, more aggressive acquisitions or shareholder returns could be forthcoming, pressuring ratings, particularly at the lower-rated credits.

### What to look out for?

**Lower volumes pressuring margins.** We expect softer demand to result in increased competition, which will limit pricing power and pressure margins and earnings. Furthermore, high incentives by homebuilders to maintain volumes could limit building materials companies' ability to pass through price increases. Nonetheless, profitability has remained resilient and companies have kept prices stable.

**Slower growth in new construction and pullback in remodel spending.** While we believe homebuyers are adjusting to higher mortgage rates and demand for new homes remains resilient, a sharper-than-expected pullback in homebuilding or renovation demand could pressure issuers with higher exposure to these segments.

### What are the key risks around the baseline?

**Cost inflation could strain consumer spending and reduce earnings further.** Slowing demand for home repairs and construction coupled with persistent cost pressure within the building materials industry could limit pricing power and increase pressure on margins. Unfavorable price-cost mixes, sticky inflation in commodities, and high labor and delivery costs could result in weaker-than-expected earnings and cash flows.

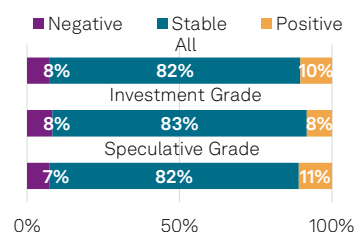
**High interest rates will increase refinancing risks for speculative-grade issuers.** The debt of many speculative-grade issuers is priced at historically low interest rates. As the Fed increased its benchmark rates, issuers faced higher refinancing costs, thus a reduction in their interest-coverage metrics. On the plus side, most issuers do not have significant maturities before 2026 and many have refinanced already.

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### Rating Trends

#### Outlook Distribution



#### Ratings Statistics (YTD)\*

	IG	SG	All
Ratings	12	55	67
Downgrades	0	0	0
Upgrades	0	7	7

#### Ratings Outlook Net Bias



#### Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	3.8	3.8
EBITDA growth (Y/Y%)	8.2	3.4
EBITDA margin (%)	19.5	15.2
Capex growth (Y/Y%)	9.4	6.2
Debt/EBITDA (x)	1.6	4.2
FFO/Debt (%)	46.8	14.4
FOCF/Debt (%)	24.9	7.3

All data as of end-June 2024.

\* Year-to-date. Current ratings only.

### Related Research

[Signs of Stability Are Emerging Amid Challenging Conditions in Real Estate](#), July 2, 2024

[U.S. Homebuilders Are Building On Improving Credit Quality](#), June 3, 2024