



# European IG Building Materials & Construction: PMI, NRG, PPI, ESG & RV

Andrew Belton

Senior Analyst – Building Materials & Construction



# The Construction Value Chain Is Around 2% Of The BAML Indices



## Building Materials

IG – €23.6 bn (0.9% of Index)

HY – €4.1 bn (1.1% of Index)

- Concentrated market
- Products expensive to transport globally
- Thus growth through local presence vs exports
- High margin
- Cash generative
- Capital intensive
- Seasonal
- Cyclical



## Building & Construction

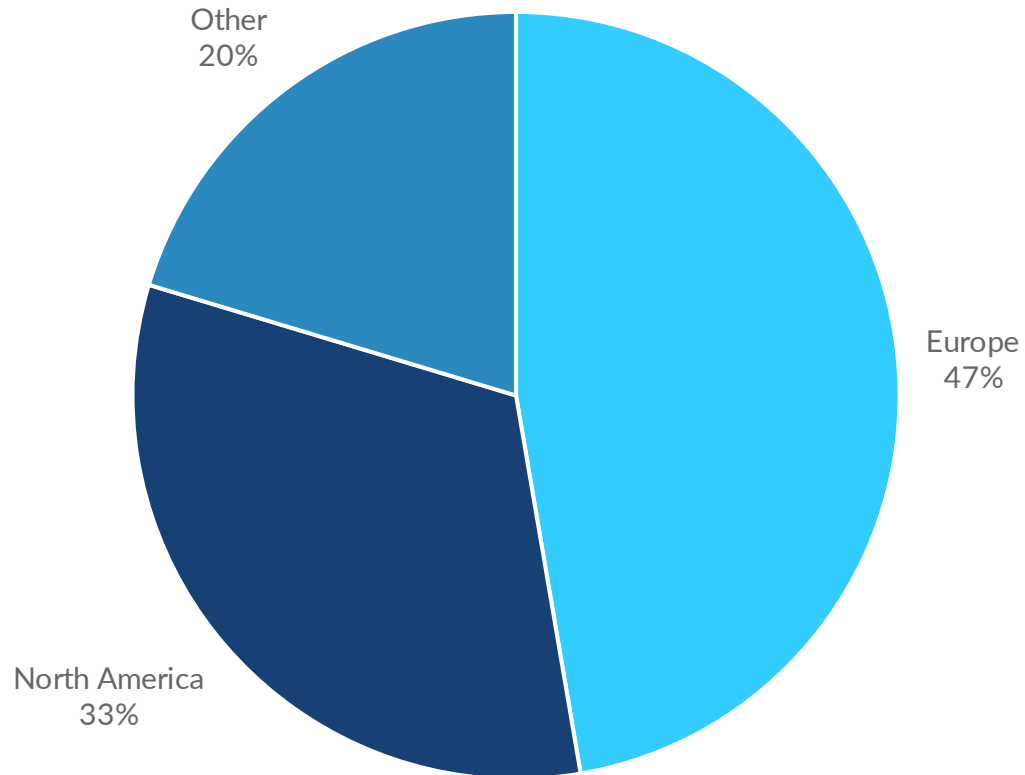
IG – €14.9 bn (0.6% of Index)

HY – €5.8 bn (1.5% of Index)

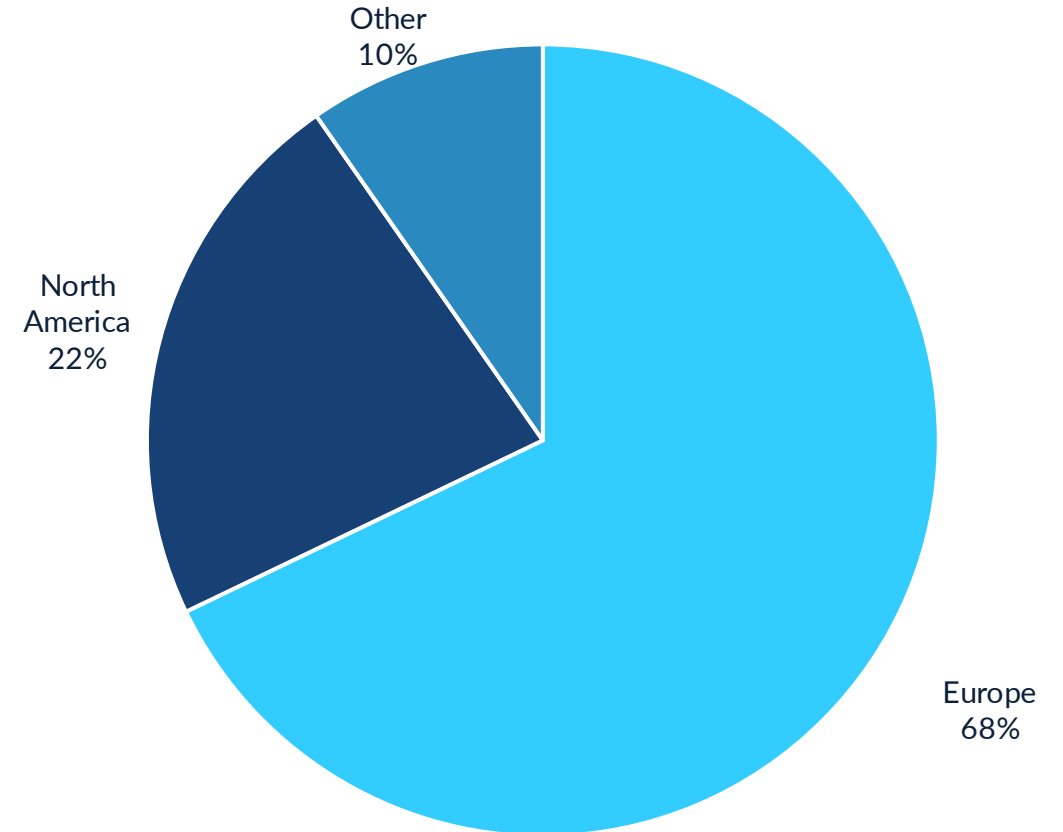
- More fragmented
- Low margin
- Cash consumptive
- Capital intensive
- Seasonal
- Cyclical
- Lack of visibility on individual construction contract profitability, cash flow or overall progress
- Contracting groups seek diversification through:
  - Airport / Motorway Concessions
  - Telecoms

# Both Sectors Are Leveraged To Both European And US Construction

Building Materials FY21 Geographic Diversification



Building & Construction FY21 Geographic Diversification



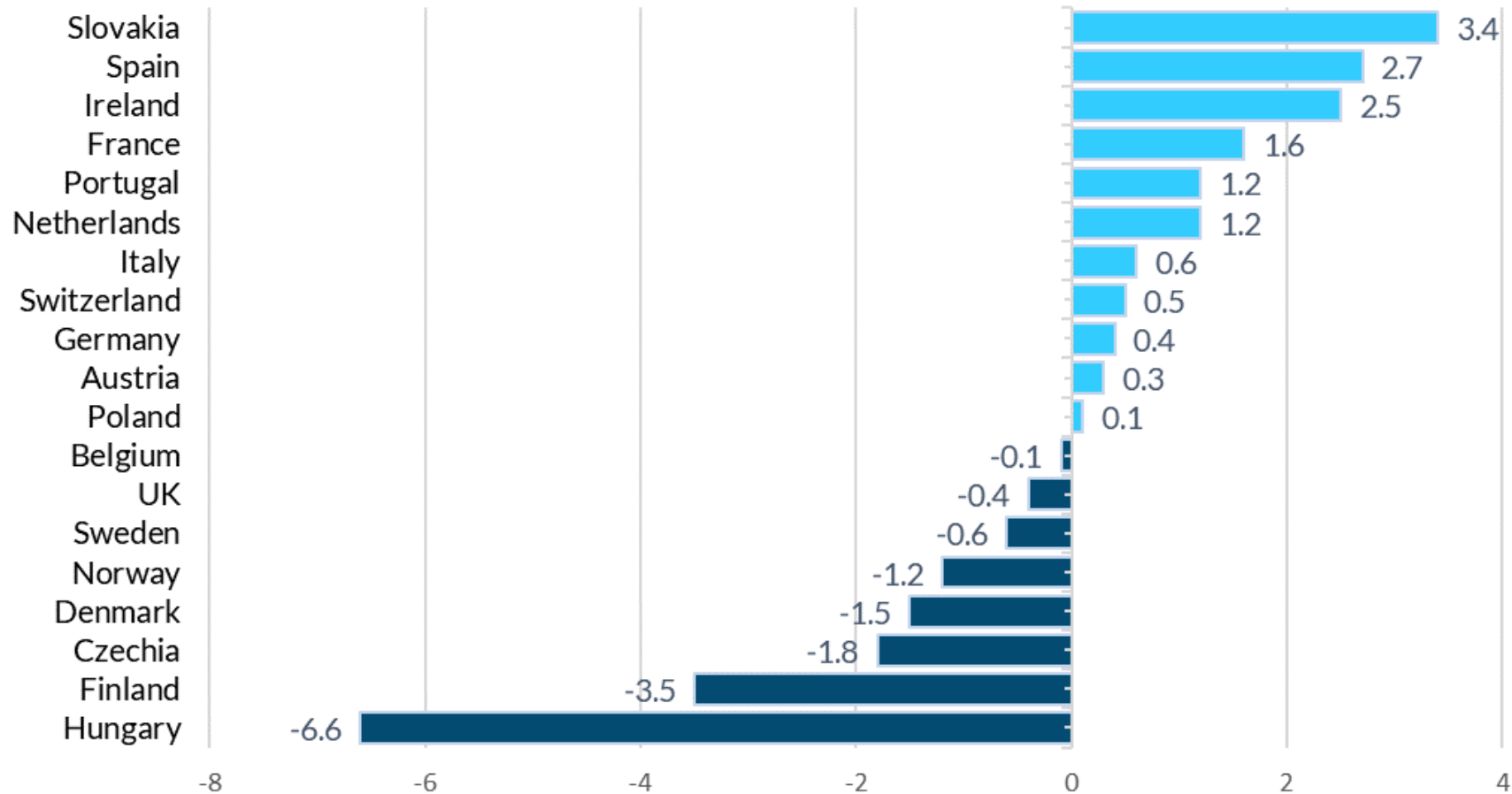
# PMI (Proxy) – Euro Construction Growth To Grind To A Halt In 2023 & 2024

## Forecast Construction Output Changes (% YoY) - Euroconstruct

Total Construction, Civil Engineering & Building (% Change YoY)							
	2019	2020	2021	2022F	2023F	2024F	2025F
Total Construction Output	2.7	-4.4	5.8	3.0	0.2	0.0	1.1
Total Civil Engineering	3.5	-0.1	5.1	0.6	2.9	1.8	2.2
New Residential	2.6	-6.3	6.4	2.6	-2.0	0.3	1.1
Residential RMI	1.8	-1.8	8.6	6.1	-0.7	-3.0	0.3
Total Residential Construction	2.1	-3.8	7.6	4.6	-1.2	-1.6	0.6
New Non-Residential	4.1	-9.5	2.0	2.6	-0.1	1.5	1.2
Non-Residential RMI	1.8	-6.6	5.0	1.1	1.6	1.3	1.0
Total Non-Residential Construction	3.0	-8.2	3.4	1.9	0.7	1.4	1.1

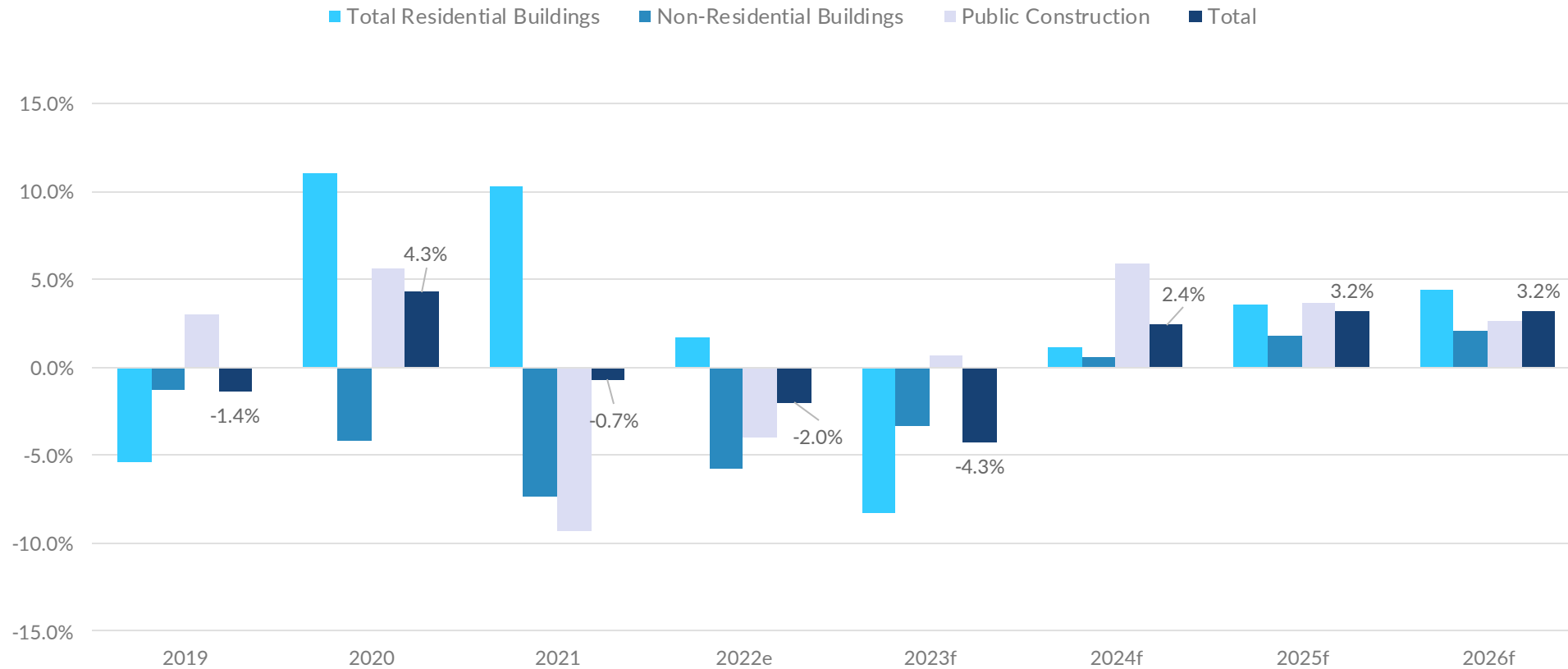
# But Country Outlook Can Impact Single Name Risk

## 2023 % Change in Total Construction Output by Country



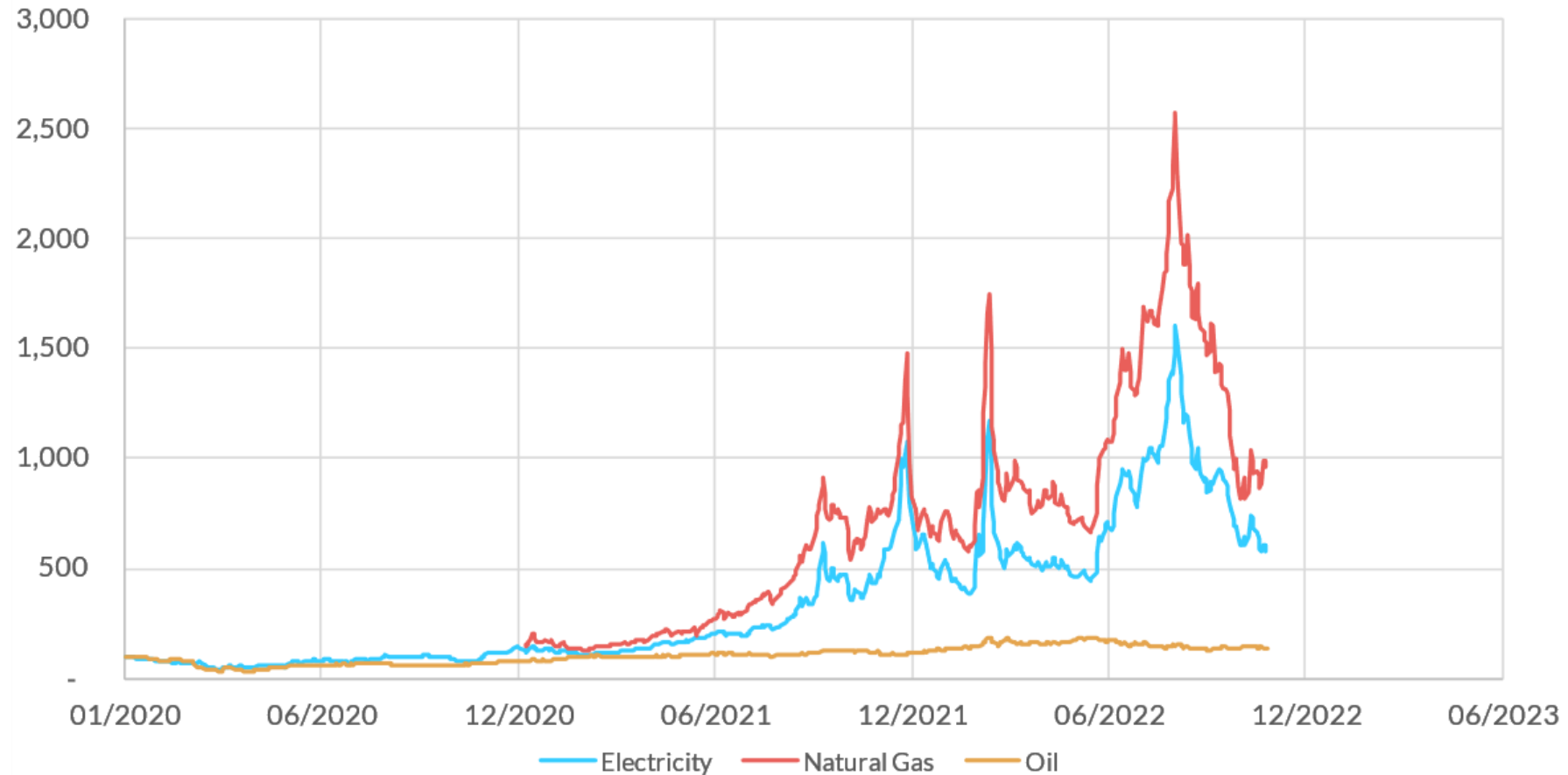
# US Construction – Under Pressure In 2023, But Watch For The Infra

## US Construction Trends & Outlook Annual % Change in \$ bn amounts



# NRG – Energy Cost Inflation Not Going Away

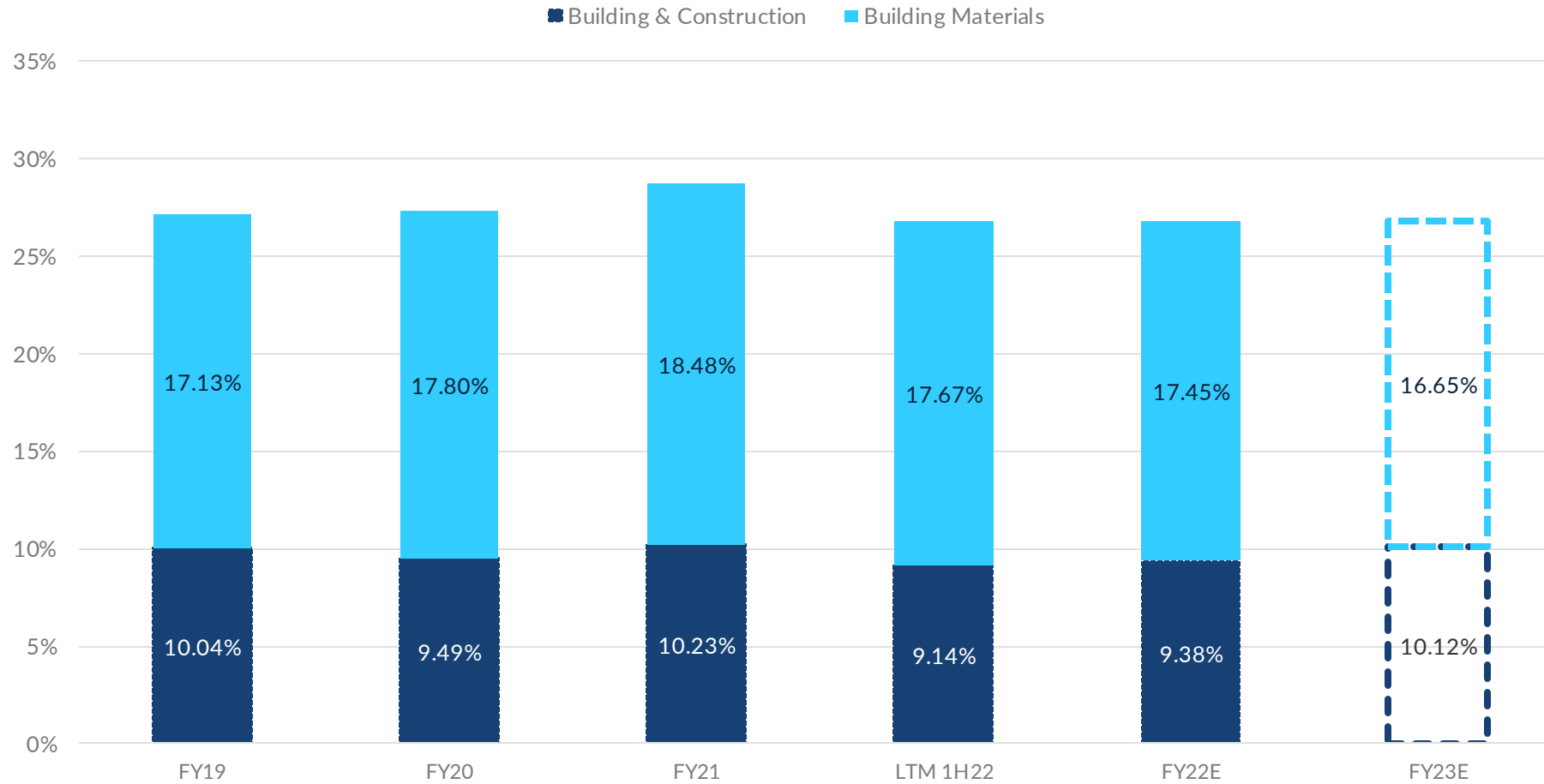
## Change in Energy Prices (Index: January 2020 =100)



Note: Electricity price as OTC Germany Baseload Electricity 1 Month Forward Prices; Natural Gas price as Netherlands TTF 1 Month Forward Prices; Oil price based on ICE Brent Futures  
Source: Bloomberg, CreditSights

# PPI: Margin Pressure To Continue Despite Product Price Rises

## European IG Building Materials and Building and Construction EBITDA Margins



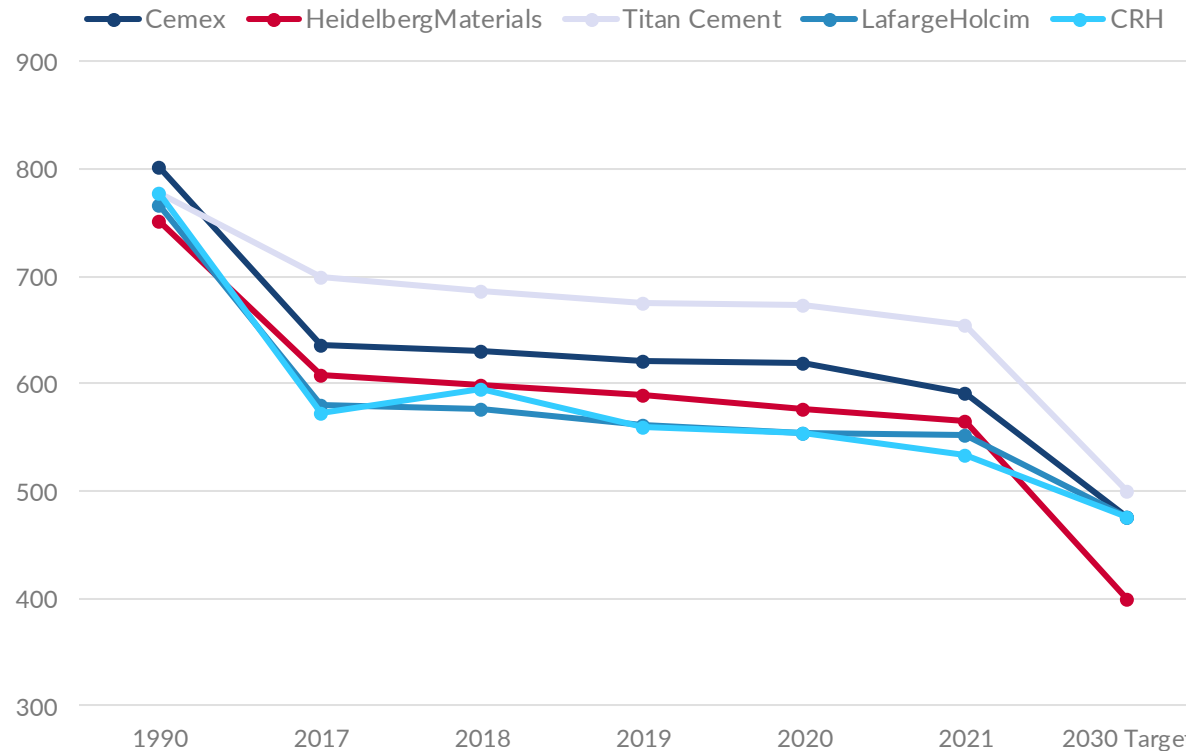


# ESG: 'E' & 'G' Highly Visible, But Is There Any Impact On Credit Risk?

## Emissions Building Materials Peer Comparison - Kg CO<sub>2</sub> / t cementitious material (Net, unless stated)



Circular economy

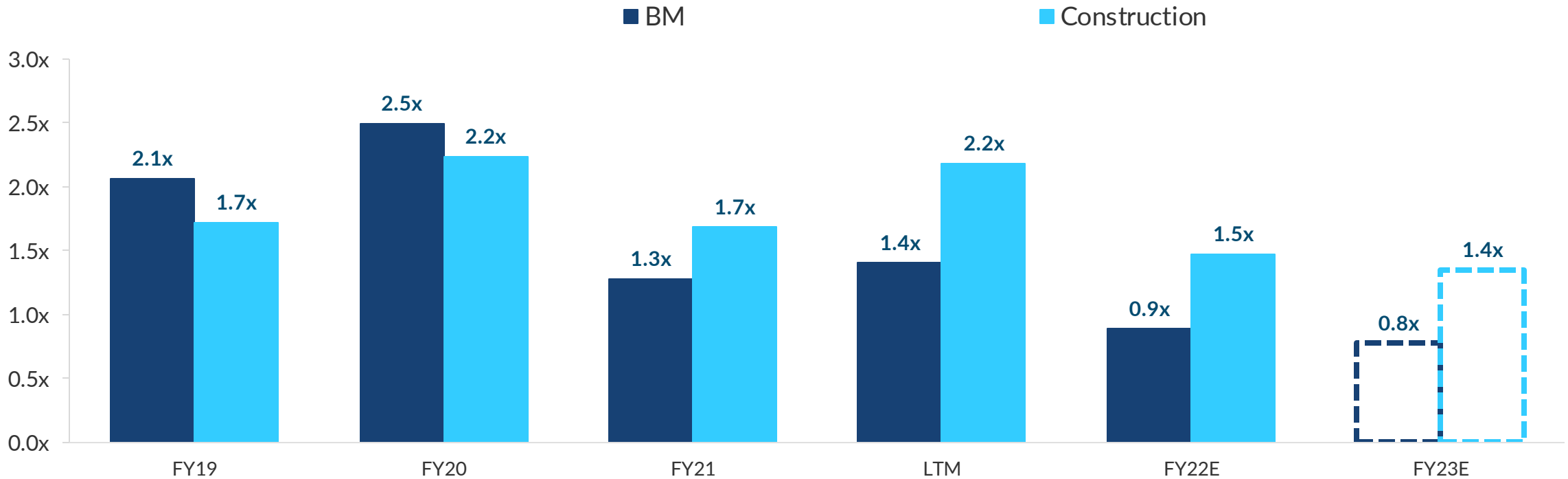


CARING FOR OUR PLANET



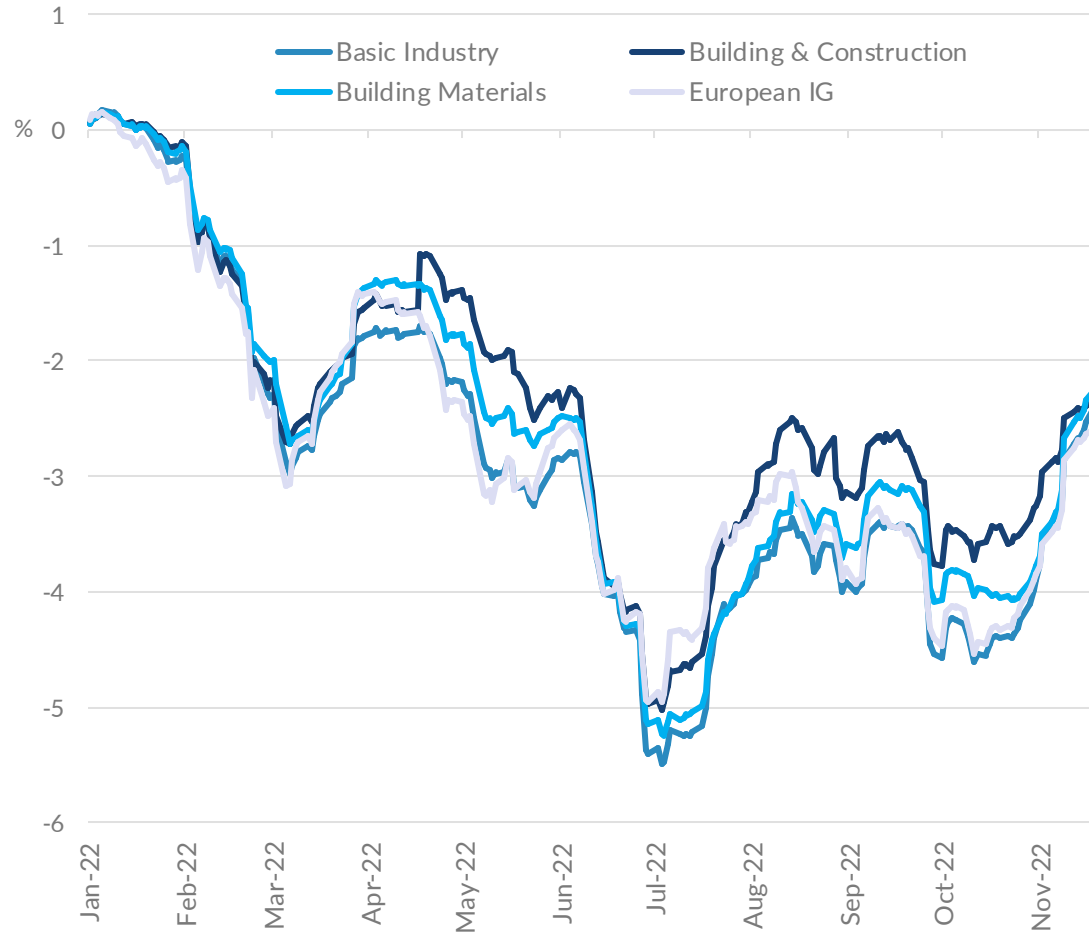
# Leverage Remains Credit Strength For Both Parts Of The Value Chain

## Average Net Leverage by Sector

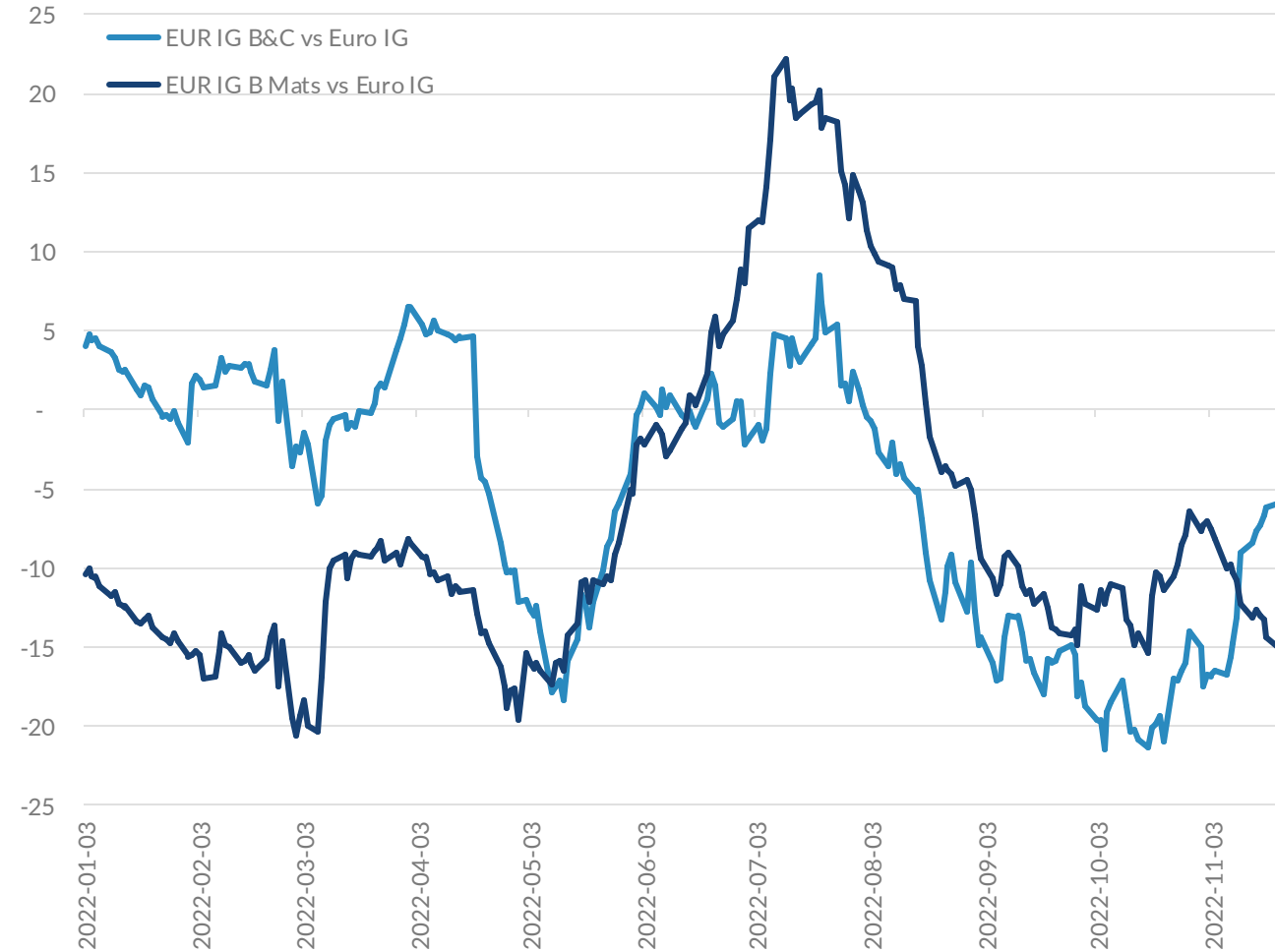


# Relative Value: Both Sectors Trade Inside The Index – Is This Justified?

## Excess Returns - YTD (%)



## Spread Gaps - YTD (bp)



# Relative Value: What Are Our Sector Recommendations Into 2023?

## European Building Materials

### Underperform

- Spreads inside Index & Basics
- Shorter Duration
- Weaker US/EUR Construction
- Energy & Transport Cost Inflation
- Margin Pressure
- But Balance Sheets Remain Solid

## European Construction

### No Recommendation

- Spreads inside Index & Basics
- Longer Duration
- Weaker US/EUR Construction
- Cost inflation in Contracting
- But Diversification Benefits
- Balance Sheets also Remain Solid

# Relative Value: Single Name Risk – Picks & Pans

## Picks



- Mispriced cement sector behemoth (HOLN)
- Flight to Quality Trade in BM (CRH)
- Best way to play Construction space (DGFP)

## Pans



- Weakest positioned credit in Building Mats (HEIGR)
- Solid credit but spreads too tight (SGO)
- Weakest name in Construction (ENFP)



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