Construction and Construction Materials Rating Methodology

Corporates

Call for comments

Scope welcomes market participants' comments on its proposed methodology.
Please send your comments by 3 April 2026 to consultation@scoperatings.com.

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1. Introduction

This methodology is the latest update of the Construction and Construction Materials Rating Methodology, which details Scope's approach to rating construction and construction material companies. This methodology supplements our General Corporate Rating Methodology and supersedes it in case of conflict, inconsistency or ambiguity.

Key changes to the methodology

This methodology update contains the following adjustments:

- An alignment with regards to the terminology used for key rating drivers with Scope's General Corporate Rating Methodology
- A renaming of the following rating factors
  - "Market shares" to "Market position"
  - "Industry-related drivers" to "Industry Risk Profile"
- An alignment of the overall rating construct with the proposed General Corporate Rating Methodology pertaining to:
  - A re-positioning of our Liquidity assessment as a Supplementary Rating Driver, rather than as a discrete sub-factor within the Financial Risk Profile
  - A re-positioning of our assessment on parent/government-related entity support and peer context under External Rating Drivers
- A removal of the reference to captive finance from the section "Information and data sources"
- Editorial alignment for inconsistencies between Figure 1 and the methodology body
- Editorial changes

Expected rating impact

This update will have no impact on outstanding ratings.

2. Scope of application

We define construction and construction materials companies as those which generate most of their revenues and EBITDA from the construction of residential and non-residential buildings, infrastructure/civil engineering (e.g. for transport infrastructure and energy- and environment-related construction), industrial construction (e.g. of power plants and oil platforms), related services (e.g. architecture and engineering), the management of concessions of infrastructure assets, and the production of construction materials (i.e. heavy building materials such as cement, concrete, and bricks, as well as lightweight materials such as insulation, glass and gypsum).

This definition excludes companies which derive the majority of their revenues from real estate development, which encompasses activities ranging from the renovation and re-leasing of existing buildings to the purchase of raw land and the sale of improved land or parcels to other parties. These companies are considered real estate corporates, for which we apply our European Real Estate Rating Methodology.

This methodology is applicable globally.

3. The construction and construction materials industry

The construction industry is fragmented, composed of many small, local companies and a few large companies that gained size only over the last 20-25 years. Micro and small enterprises (fewer than 50 employees) account for almost two-thirds of the European market, mostly focused on the construction of residential and non-residential buildings. We believe this market fragmentation reflects low market entry barriers that are the result of initial investments being low and proprietary technologies not being needed to enter local markets.

Even though, construction and construction materials companies need to continuously invest in property, plant and equipment to remain competitive, they are less capital-intensive than companies in other industries. Furthermore, large construction companies often have better access to third-party capital and letters of credit, which are often necessary for large projects and are an advantage during difficult market conditions and competitive bidding processes. Scale is therefore a main rating driver for companies in this industry.

Companies that are diversified across different segments have a variety of business models. Diversification outside the construction industry is rare and often limited to small divisions operating in real estate development, renewable energies and utilities. We identify six main segments in construction:

1. Buildings and small civil engineering
2. Infrastructure and civil engineering
3. Industrial construction
4. Construction-related services
5. Concessions
6. Construction materials

As a result of the industry's cyclicality, most market participants tend to extend operations outside their domiciled country. Different construction cycles in other regions help to mitigate the inherent volatility in the domestic market and allow corporates to benefit from stronger growth prospects elsewhere. We believe construction investments follow general economic cycles but with a time lag, and this particularly applies to large-scale projects.

For construction and construction materials companies to be rated investment grade according to our methodology, we would typically expect: i) a large scale combined with strong competitive position; ii) a stable presence in different geographic regions; and iii) broad segment diversification. Cash flows of investment grade companies tend to be highly predictable and less volatile than the economic cycle, due to the multi-year projects and backlog. These companies benefit from stable profitability and strong financial measures.

Compared to other segments, concession-related activities tend to generate predictable, long-term income and high margins.

In contrast, a small size, weak competitive position compared to international peers, and weak geographic and segment diversification can indicate a non-investment grade rating. The cash flows of non-investment grade companies tend to be less predictable, less diversified and more volatile. Furthermore, these companies often have volatile profitability and weaker financial metrics.

The industry's high cyclicality makes it challenging for construction and construction materials companies to achieve high investment grade ratings.

4. Information and data sources

In the analytical process we typically take into account the following sources of information. Not all of the listed information will be considered for every rated entity. Moreover, we may consider additional sources of information if necessary.

- Audited financial statements[1]
- Unaudited interim financials
- Press releases
- Presentations and information from conference calls/capital market days
- Financial forecasts/budgeting of the rated entity, if available/accessible
- Research on the industry, rated entity and relevant jurisdictions
- Data from external data providers, e.g. consensus estimates, debt placements
- Management meeting (in case of issuer participation)
- Loan documentation, e.g. debt prospectuses, bank loan agreements
- Valuation reports from external assessors
- Scope internal data, e.g. spreading of historical financials and detailed forecasts for the next few years, peer group data

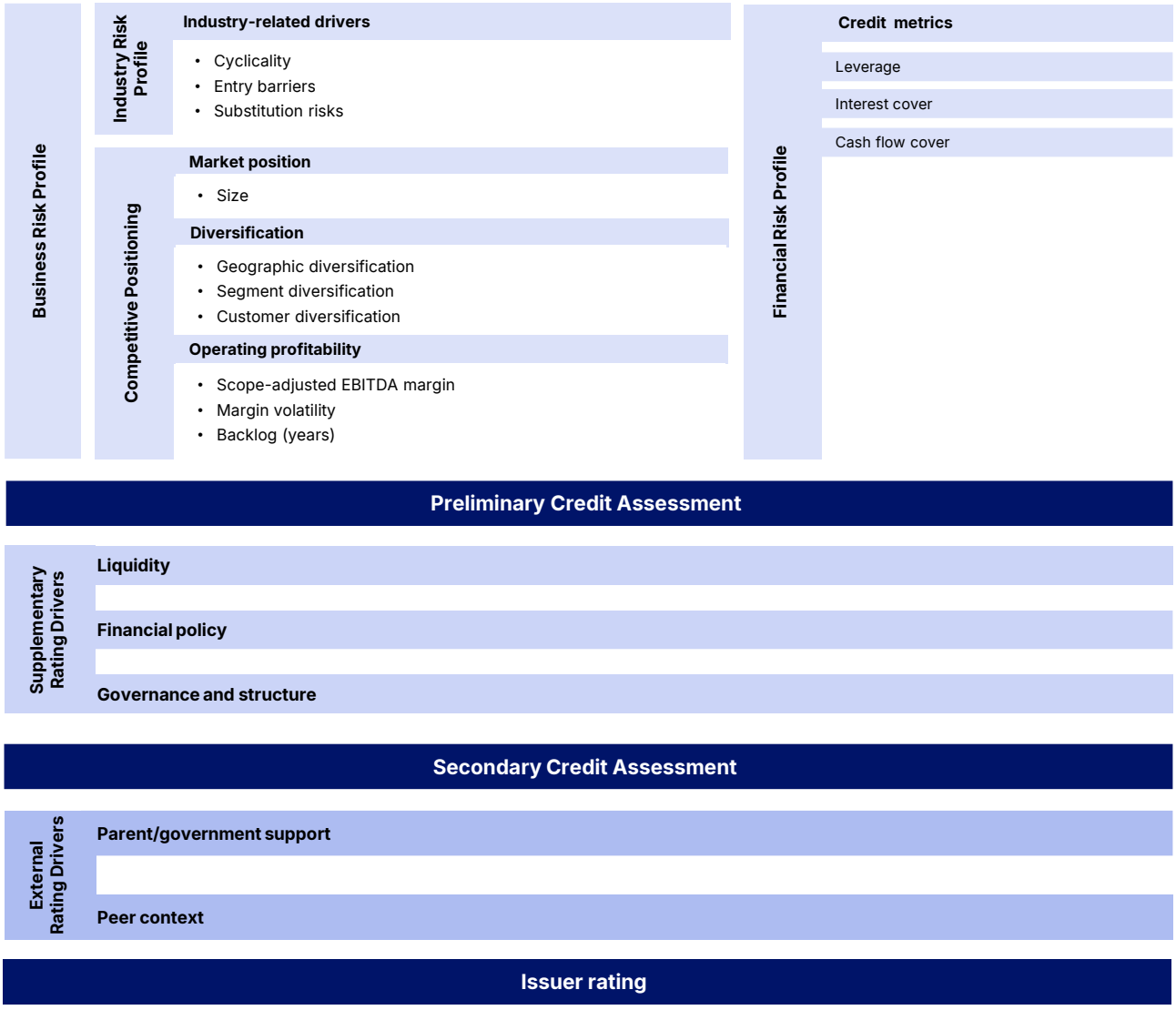
1 In rare cases, we could consider unaudited and/or pro-forma consolidated accounts in the rating analysis. This could be the case for newly formed entities which cannot provide audited financials.

5. Key components

We apply our rating methodology for construction and construction materials companies as outlined in Figure 1. The rating analysis takes into account industry-specific credit risk factors as specified in this methodology as well as factors common to all industries such as management, liquidity, legal structure, governance and country risks which are explained in more detail in the General Corporate Rating Methodology. The following risk drivers are non-exhaustive and may overlap; some may not apply to certain corporates. We may add issuer-specific rating factors, and a company's business model is decisive for the applicable indicators.

The different issuer-specific and rating-relevant characteristics laid out in the methodology must not be seen as a predetermined ranking or scorecard. No rating driver has a fixed weight in the assessment.

Figure 1: General rating grid on construction and construction materials corporates



Source: Scope Ratings

5.1 Business Risk Profile

We adopt a forward-looking approach when analysing an issuer's Business Risk Profile, taking into account the issuer's market and sector dynamics, as well as business drivers. The Business Risk Profile is divided into an analysis of the Industry Risk Profile and of the company's Competitive Positioning.

5.1.1 Industry Risk Profile

The Industry Risk Profile aims to capture the general drivers for the underlying industry and consists of three factors:

- Cyclicality
- Entry barriers
- Substitution risks

Cyclicality

The construction industry is often associated with cyclical features, especially compared to industries with inelastic demand patterns.

We consider a company's exposure to economic developments that may result in a downside volatility of cash flows. Downside volatility can arise from either: i) volume risks from a high exposure to buildings, industrial construction and public/government customers; or ii) risks from price fluctuations for materials, labour and energy, and typically little room to adjust pricing for existing contracts. We believe that a high proportion of concession-related business can help to weather economic downturns and stabilise operating performance.

Unlike companies in other industrial sectors, construction corporates can have large exposures to government customers, making them more vulnerable to changes in fiscal policy. Even so, the last global financial crisis (2007-2008) affected European construction output much less than building construction, as government spending and fiscal policies continued to address public infrastructure needs (which in turn has stimulated civil engineering).

Construction is a highly cyclical segment. Therefore, a company's ability to enter the market and its substitution risk depend on the size of its projects, the end-markets it serves, and the technical prerequisites for specific project types such as offshore sites, tunnelling and innovative construction materials. Concessions is the exception and a company with a large share of such services in its business may have a lower cyclical exposure and thus a lower industry risk.

Entry barriers

Entry barriers vary depending on the business model and the end-markets served.

The building segment tends to have low entry barriers as initial investments are low and proprietary technologies are not needed to enter local markets.

Civil engineering is generally more capital-intensive and often requires letters of credit. We therefore view market entry barriers as medium. Only large companies with good access to third-party capital can participate in these predominantly large-scale projects. Large-scale industrial projects such as the construction of power plants, oil platforms and refineries have high entry barriers as specialised proprietary technologies are often required.

In construction materials, market entry requires a certain level of initial capital expenditure (e.g. for manufacturing plants), manufacturing expertise, access to distribution channels, customer relations, and the acquisition of permits (mainly for basic building materials companies). Large manufacturers (e.g. of cement) face high entry barriers owing to the large initial cost to set up manufacturing plants. For small producers of finished products, manufacturing expertise is more relevant. Given the broad spectrum of company sizes and product types in this fragmented industry, entry barriers for construction materials companies are medium.

Substitution risks

Substitution risk is low as technologies are unlikely to replace the industry's role in addressing the need for new commercial and residential buildings, maintenance work, and heavy and civil engineering (e.g. for railway tracks, bridges, highways, tunnels, airports and other functional, capital-intensive ventures). This area of construction will continue to be fuelled by population growth, globalisation and urbanisation. However, substitution risk is medium for producers of finished goods impacted by global trends such as sustainability and energy-efficiency.

Figure 2: Scope's Industry Risk Profiles for construction and construction materials companies[2]

Entry barriers / Cyclicality	Low	Medium	High
High	**1** CCC/**B**	**2+5** B/**BB**	**3** BB/**BBB**
Medium	B/BB	**4** BB/**BBB**	BBB/A
Low	BB/BBB	BBB/A	A/AA

Source: Scope Ratings

We assign the following Industry Risk Profiles:

1. **Buildings and small civil engineering projects, B:** corporates focusing on small to medium-sized construction projects with high cyclicality, low entry barriers and low substitution risks; the same applies to companies focusing on small industrial and civil engineering projects. We consider that a company is focused on small civil engineering projects when its portfolio comprises more than 75% of projects with an individual contract value of below EUR 50m.
2. **Infrastructure and civil engineering, BB:** construction companies in infrastructure and civil engineering focusing on medium- to large-scale projects with high cyclicality, medium entry barriers and low substitution risks.
3. **Industrial, BBB:** industrial construction companies – while exposed to high cyclicality – benefit from high entry barriers and low substitution risk as they focus on large-scale and heavy industrial construction that requires specialised proprietary technologies.
4. **Concessions, BBB:** concessionaires that benefit from medium barriers to entry, generally medium cyclicality and low substitution risk.
5. **Construction materials, BB:** companies that focus on end-markets (e.g. new construction and maintenance) with different cyclicality patterns (medium to high) and that benefit from medium barriers to entry and low substitution risk.
6. **Construction-related services, B to BBB:** corporates that provide services focused on existing structures and/or construction planning; they typically have the same Industry Risk Profile (B to BBB) as the construction activity they are up- or downstream of.

When a company operates in different segments, we blend the segments based on their relative contribution to revenue or EBITDA or on another relevant breakdown based on our expert judgement.

Due to construction and construction materials companies' high exposure to the economic cycle, the Business Risk Profile is a key indicator of their credit quality over time. It indicates the extent to which a company's Competitive Positioning protects against adverse market movements and builds entry barriers, providing a clear view of long-term viability.

5.1.2 Competitive Positioning

The Competitive Positioning of a construction and construction materials company is assessed through the following drivers:

- Market position
- Diversification
- Operating profitability

Market position

For construction and construction materials companies, size and market position determine market strength and the ability to benefit from economies of scale. A large size can also provide a broader platform of sustainable earnings and cash flow, thereby increasing the ability to weather economic cycles.

We assess a company's size using revenue and Scope-adjusted EBITDA, which indicate economies of scale as well as competitive advantages in bidding wars and the profitable execution of large, long-term and complex projects. Large size often correlates with solid diversification in geographies, segments and customer types.

2 Construction-related services are not represented in the matrix as they typically have the same industry risk (B to BBB) as the construction activity they are up- or downstream of.

Companies operating in concessions generally benefit from regulations and a monopoly-like structure in their service territories, which help to protect their market positions against competitors. This is especially important as many operate at a limited scale. In such cases, we anchor our market position assessment at 'BBB' in line with the segment's industry risk. For example, if a company generates more than 50% of EBITDA from concessions, we apply a floor to the market share assessment at 'BB'; for companies that generate 25%-50% of EBITDA from concessions, the floor is at 'B'.

We also assess the market position by considering how well and long operations are protected in the respective construction market.

Figure 3: Market position by rating category

		AA and above	A	BBB	BB	B	CCC and below
Size	**Revenue (EUR bn)**	> 18.0	9.0 to 18.0	6.5 to 9.0	3.3 to 6.5	0.1 to 3.3	< 0.1
	Scope-adjusted EBITDA (EUR bn)	> 7.2	1.8 to 7.2	1.0 to 1.8	0.25 to 1.0	0.0 to 0.25	Negative

Source: Scope Ratings

Diversification

The range of geographies and segments in a portfolio form the key elements of diversification. Both elements influence a company's earnings volatility, which can be affected by cyclical swings, changes in competition and project performance. Diversity across several continents and/or economic regions as well as an exposure to a number of uncorrelated segments can mitigate earnings volatility.

We measure the geographic diversification of construction and construction materials companies as the percentage of revenue generated in a specific geographical region[3]. A wide spread of activities across various geographical regions with different demand patterns or cyclical exposures tends to reduce cash flow volatility. This, however, depends on whether the company's foothold in absolute terms ensures a long-term commitment to these (non-)core markets. A wide geographic diversification is a positive rating factor.

Segment diversification is assessed using e.g. the share of revenues, EBITDA or operating profit provided by each segment. As the economic cycle affects segments differently, spreading activities across various segments tends to reduce the volatility of cash flow and reduce cyclicality in the portfolio. Moreover, a large share of concession-related activities can offset the cyclicality inherent to the construction industry as they can provide a high cash flow resilience.

The share of the largest customers in sales and/or the backlog provides an indication of the stability of cash flow going forward. A granular customer base generally supports more stable cash flow, with limited cluster risk arising from non-payment, project delays, loss of contracts and/or weaker order intake. In the absence of relevant disclosures on an issuer's customers, we generally base our view on project diversification.

3 We identify the following seven global regions: Europe, North America, Latin America, Oceania/Australia, Asia, Africa and the Middle East.

Figure 4: Diversification by rating category

	AA and above	A	BBB	BB	B	CCC and below
Geographic diversification	Reflects global market		Global but unbalanced presence	Overreliance on one region	Operates in one region	Operates in one country
Segment diversification	No segment with > 30% of revenue/EBITDA	No segment with > 40% of revenue/EBITDA	No segment with > 70% of revenue/EBITDA; 3-4 segments	No segment with > 70% of revenue/EBITDA; two segments	> 70% of revenue/EBITDA from one segment	> 90% of revenue/EBITDA from one segment
Customer diversification Top 10 (%)	< 10		10 to 20	20 to 50	50 to 90	> 90

Source: Scope Ratings

We consider long-term contracts with high-credit-quality customers to strongly mitigate high customer or geographic concentration.

Operating profitability

For construction and construction materials companies, we use the Scope-adjusted EBITDA margin (in %) and the backlog (in years) to measure the profitability, efficiency and visibility of revenues and margins into the medium term.

Scope-adjusted EBITDA margins depend on the segments in which the company operates and its pricing power within them. Concession contracts tend to provide higher margins because operations are protected by the concession holder's quasi-monopoly and benefit from lower operating and maintenance expenses. However, many concession contracts require large upfront capital expenditure.

We evaluate the volatility of the Scope-adjusted EBITDA margin to determine the stability of internal financing as well as sustainable competitive advantages, especially when the margin is high. High margins may also indicate entry barriers that help to sustain the profitability of companies already in the market. High vertical integration generally results in more stable profitability as it reduces reliance on external providers and improves the ability to control costs. High vertical integration is evident in a company that produces its own raw materials, converts these into finished goods and distributes the goods to customers.

We examine each company's existing order backlog[4] to form a view on its future revenue stability. A high order backlog indicates that future orders are well protected. We recognise that many companies, particularly those that serve utilities, have significant future revenue streams due to master service agreements. We forecast revenue streams when data is sufficient, although these are generally difficult to quantify and not reported in the backlog.

For concession-related activities, we use the weighted average concession length as a proxy for the stability of future cash flow. A longer concession length is credit positive, as it results in a high level of predictability of future.

For construction material companies, we may complement our revenue forecasts and volatility thereof by assessing the medium- to long-term changes in the utilisation rate of their production facilities.

The book-to-bill ratio can also indicate the predictability of potential demand and stability of cash flows. A ratio greater than 100% implies that more orders have been received than filled in a year. It may indicate strong demand and ability to generate new business, hence future revenue streams, enhancing a company's credit quality. We view this as a positive rating driver. In contrast, a ratio below 100% implies weaker demand, impacting stability and predictability of a contractor's cash flow generation.

4 Backlog is the amount of work (in euros) contracted in the future. Our ratio captures the relation between the order backlog and average revenue in the last three years.

Figure 5: Operating profitability by rating category

	AA and above	A	BBB	BB	B	CCC and below
Scope-adjusted EBITDA margin	> 40%	20% to 40%	14% to 20%	7% to 14%	0% to 7%	Negative
Margin volatility	Low to medium		Medium		High	
Backlog (years)	> 8	6 to 8	4 to 6	2 to 4	1 to 2	< 1

Source: Scope Ratings

5.2 Financial Risk Profile

Our assessment of a construction and construction materials company's Financial Risk Profile follows the general guidance presented in our General Corporate Rating Methodology. We focus on recent and forward-looking data including (but not limited to) key parameters like leverage, interest cover and cash flow. We also assess liquidity, which is particularly important for non-investment grade issuers.

The Financial Risk Profile indicates a company's financial flexibility and viability in the short to medium term. A company with a strong Financial Risk Profile is more likely to be resilient to economic downturns, adverse industry dynamics, unfavourable regulation or an unexpected loss of a revenue source. The ability to retain financial flexibility during an economic downturn is a rating driver for construction and construction materials companies as it indicates an ability to invest at all phases of the economic cycle.

5.2.1 Credit metrics

We assess the Financial Risk Profile of construction and construction materials companies using the same four credit metrics in the General Corporate Rating Methodology. For further information and definitions, see General Corporate Rating Methodology.

Our calculation of Scope-adjusted debt excludes non-recourse loans (such as for project finance concessions) held by special purpose vehicles unless we consider that a company has some willingness to support these loans or if they include cross-default clauses. Our assessment of such a willingness is based on the company's market reputation, for which we use the Business Risk Profile as a proxy. A stronger Business Risk Profile, generally for investment grade companies, indicates a higher likelihood that the company will provide support in order to preserve its reputation. We generally assess the sensitivity of credit metrics to determine their resilience if a company holds non-recourse loans, assuming different levels of potential support for those loans.

When calculating Scope-adjusted debt, cash netting considers restrictions on funds earmarked for specific purposes. Such restrictions include plans for capital expenditure or mergers and acquisitions, operating cash needed to manage intra-year working capital fluctuations, advances received for future work, provisions for litigation, and cash held within the broader group. Other types of restrictions may also apply.

5.3 Supplementary Rating Drivers

Supplementary Rating Drivers complement our analysis of the factors and drivers of the BRP and the FRP. They are reflected via notching based on the Preliminary Credit Assessment as the starting point.

Our supplementary analytical aspects cover:

5.3.1 Liquidity

Our general liquidity assessment is outlined in our General Corporate Rating Methodology.

However, we do perform a sector-specific assessment of a construction or construction materials company's liquidity when we assess:

1. Funding of working capital: construction companies generally have high and volatile working capital requirements during project cycles. We determine whether these cash outflows are adequately covered by committed, undrawn credit facilities for working capital and unrestricted cash positions.
2. Non-recourse debt: Construction companies tend to finance capital-intensive concession activities with debt issued by special purpose vehicles (non-recourse project finance). Our calculation of short-term debt for the liquidity assessment generally excludes non-recourse loans held by special purpose vehicles unless we consider that a company has some willingness to support these loans or if they include cross-default clauses.

To better quantify liquidity risk, we may also consider a company's use of reverse factoring, especially for those with a non-investment grade Financial Risk Profile. This follows our view that the termination of reverse factoring arrangements at a time of stress is likely to lead to significant working capital outflow over a matter of months, maybe even weeks. The General Corporate Rating Methodology provides further detail on how reverse factoring is incorporated in the credit analysis.

5.3.2 Financial policy

Our general assessment of financial policy is described in the General Corporate Rating Methodology.

5.3.3 Governance and structure

Our general assessment of governance and structure is described in the General Corporate Rating Methodology.

5.4 External Rating Drivers

External Rating Drivers finalise our analysis. They are reflected via notching based on the Secondary Credit Assessment as the starting point.

5.4.1 Parent/government support

Our assessment of parent support is described in the General Corporate Rating Methodology.

When assessing parent support related to a government shareholder, we apply our Government Related Entity Rating Methodology.

5.4.2 Peer context

Our assessment of peer context is described in the General Corporate Rating Methodology.

5.5 Environmental, social and governance (ESG) assessment

Credit-relevant environmental and social factors are implicitly captured in the rating process, while corporate governance is explicitly captured at the 'governance and structure' analytical stage (see 5.3.3).

The rating analysis focuses on credit quality and credit assessment drivers. An ESG factor is only credit-relevant when it has a discernible and material impact on the issuer's cash flow, and, by extension, its overall credit quality.

ESG-related developments across the construction and construction materials sector are increasingly influencing the credit quality of issuers. These include regulatory and market trends such as green building standards, EU taxonomy alignment and carbon reduction regulations, which can impact cost structures, capital expenditure and long-term competitiveness.

The main ESG risks faced by construction and construction material companies relate to: i) carbon emissions and energy efficiency; ii) waste and sustainable building materials; iii) the adoption of efficient and low-carbon technologies; iv) resource scarcity and use, e.g. for water; v) employee health and safety; vi) supply chain transparency and human rights compliance; and vii) litigation, bribery and regulatory risk.

ESG-related risks are generally specific to the issuer or its jurisdiction and range from market risk (e.g. energy prices) to regulatory intervention (e.g. CO2 emission allowances). Thus, credit-relevant ESG factors will be taken into account at the issuer level.

Credit-relevant ESG factors can directly and indirectly affect all elements of the Business Risk Profile, Financial Risk Profile, Supplementary Rating Drivers and External Rating Drivers.

The General Corporate Rating Methodology provides further detail on how ESG factors are incorporated in the credit analysis.

6. Issuer rating

The final issuer rating is based on our analysis of the Business Risk Profile, Financial Risk Profile, Supplementary Rating Drivers and External Rating Drivers. The rating committee decides on the relative importance of each rating driver. For the Preliminary Credit Assessment, the Business Risk Profile and Financial Risk Profile are generally weighted equally for companies perceived as crossovers between investment grade and non-investment grade. The Business Risk Profile is typically emphasised for investment grade companies, while the Financial Risk Profile is mostly the focus of ratings assigned to companies that are perceived as having high-yield credit profiles. However, the latter also depends on the Financial Risk Profile. Less focus is granted to strong Financial Risk Profiles of companies showing a weak or vulnerable Business Risk Profile (in the B or low BB category) since for such companies, the Financial Risk Profile is subject to higher volatility. This takes into account that the credit rating of

companies with weak or moderate Business Risk Profiles should not be bolstered by a temporarily strong Financial Risk Profile. Hence, the weighting between the Business Risk Profile and Financial Risk Profile is adapted to each issuer's business model and market(s).

7. Additional methodology factors

For more details on our rating Outlooks for corporate issuer ratings, long-term and short-term debt ratings, the recovery analysis see the General Corporate Rating Methodology.

8. Appendix

8.1 Related documents

For more information, please refer to the following documents:

- General Corporate Rating Methodology
- European Real Estate Rating Methodology
- Government Related Entity Rating Methodology
- Credit Rating Definitions

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