

NEWSLETTER

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CEMENT
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Most major cement producers have now reported their 2017 financial results. Although the actual financial performance of these companies is not the topic of discussion here, the results have shed some light on several markets we reviewed recently.

These results have reinforced several themes identified in our recently published regional report on the Gulf and North Africa. Most major international players are not present in a meaningful way in the Gulf States, but they are involved in all the North African countries included in the recent Cement Business Research report.

So, what are these themes?

Egypt: All major players participating in Egypt have reported difficult trading conditions due to declining demand, increased competition and the continuing devaluation of the local currency. Although prices have risen from 2016, this was not enough to counterbalance increasing costs and lower volumes. Heidelberg indicated that both prices and volumes began to recover in Q4 2017. Reports from the market suggest that the start of 2018 saw some capacity stoppages (either due to security issues or depressed financial performance) leading to price increases. On the other hand, it is now believed that the new military plant in Beni Suef will be coming on stream this year (one or two lines). CBR has identified these issues in the report paying attention to the developing overcapacity going forward. The report also estimates industry profitability at very low levels in 2017.

Algeria: LafargeHolcim reports that the second half of 2017 saw a softening of the industry profitability due to declining domestic demand and new capacity additions. The results indicate that Algeria during 2017 has switched from a net importer to an excess capacity industry. This supports our view on the developing overcapacity in this market and the exporting opportunities of the industry going forward given its very competitive cost structure. Industry profitability although softening is still high, and it may have some way to go before it reaches equilibrium. The report details the recent path of Algeria switching from a cement "sponge" to a potential exporter in the Mediterranean region and beyond.

Tunisia: All international market participants and Carthage Cement have reported slightly lower domestic demand and increased costs due to the devaluation of the local currency and increases in internationally traded fossil fuels. Prices have not been able to compensate fully. Industry profitability has suffered accordingly. The companies have also indicated that the loss of Algeria as an exporting destination and the continuing troubles with Libya has impacted capacity utilisation rates. We have captured this situation in the recent report paying particular attention to available exporting destinations for Tunisia. An interesting aspect of the Tunisian industry is the on-going privatisation of Carthage Cement. Recently, the privatisation entity has released the list of qualified bidders. CBR has referred to this initiative in detail examining the necessary conditions for such a transaction to be successful.

Morocco: Both LafargeHolcim and Heidelberg have indicated that the Moroccan market had a positive development in 2017. Heidelberg suggests that demand has come back during Q4 2017. We have estimated a small overall decline in consumption for 2017. LafargeHolcim have announced the erection of a new plant in the country whereas our report identified other potential entrants. Our report has identified Morocco as having some of the most attractive investment characteristics in the region. However, the report also cautions that any new capacity may lead to higher fragmentation and overcapacity.