Uganda Cement Market:

The challenges of a landlocked market defined by constrained growth and a mismatch between clinker and cement capacity

Uganda's cement consumption registered the lowest growth in the region in the last decade. The 8.1% CAGR for 2007-2017 was driven by large infrastructure projects and rapid development of the property segment. The oil and gas industries and the construction of dams are identified as growth drivers going forward. Considering the large cement capacity additions of the recent years and more specifically during 2018, the industry is now facing an excess capacity situation.

FIGURE: MAP OF PLANT LOCATIONS

LEGEND:

INTEGRATED PLANT GRINDING PLANT CLINKER ONLY

Source: Industry Data; Companies' Reports/Announcements/Etc.

Thus, the supply – demand balance in cement over the next five years is expected to be unfavorable. However, it is important to note that Uganda is undersupplied in clinker and is having to import significant quantities of clinker. Such imports have been affected by a 10% import duty. With no clinker capacity scheduled to come on stream over the next years, clinker shortage may be become more acute in the near future.

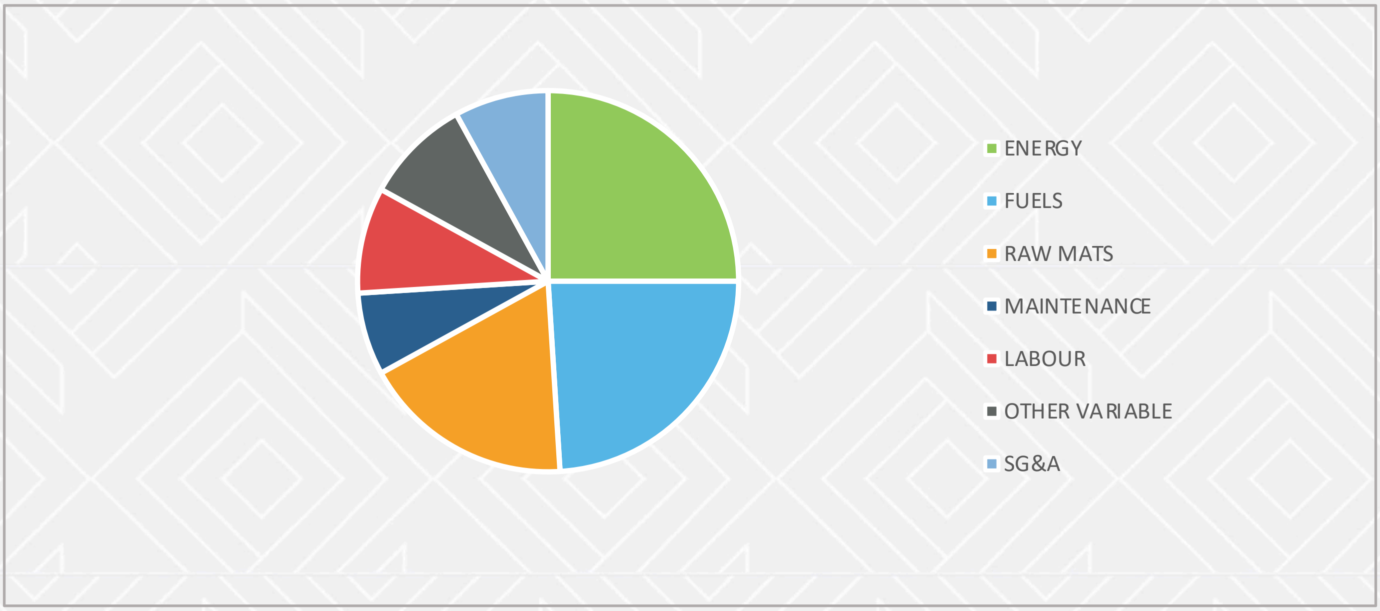
Unlike its regional peers, the geographical landscape of the Ugandan cement industry matches more the main centers of consumption and less the location of limestone reserves. The areas with the higher population density are in the Southern area of Uganda, running from Tororo in the East to Kasese in the West.

Uganda's DCUF™ (Domestic Capacity Utilization Factor – Domestic demand divided by domestic capacity) is expected to be low throughout the entire forecasting time frame and therefore the propensity of the industry to export is very strong. Unfortunately, there are several major issues regarding the exporting activity from Uganda. Firstly, the ITAM™ (International Trading Assessment Matrix) indicates that Uganda's capability to export is low. Being a landlocked country, Uganda is limited to a handful of trading partners, which do not require high volumes of cement imports.

The Ugandan cement industry reports some of the highest production costs in the region. Imported raw materials and fuels affect the profitability of the companies, as these are usually brought from Mombasa Port (1,200 km away). Unstable power supply has also been an issue for the industry.

The continuing government interference in the industry raises concerns regarding license to operate issues. The recent series of actions implemented by the Government affected the dynamics of the industry. In an effort to promote the domestic clinker production, a 10% import duty was placed on imported clinker. However, Uganda may not be able to support its cement consumption only through domestic clinker, so this measure only increased the cost of production, which led to price increases. The Government may also be considering the implementation of price caps.

FIGURE: PRODUCTION COSTS BREAKDOWN



The high demand for infrastructure projects, but also the increased need for residential, commercial and industrial construction, coupled with a strong economic growth support the cement demand projections for Uganda. However, the country may struggle to deliver these projects due to potential delays, lack of skilled resources and private credit issues. Consequently, the risk with cement demand projections for Uganda is on the downside.

East Africa Cement Market Report (Q4 2018) is an essential tool for anyone interested in East Africa and includes Kenya, Tanzania, Uganda, Ethiopia and Mozambique. You can order the 217-page report directly from our website (www.cementbusinessresearch.com). Alternatively, please comment on the article for more information.