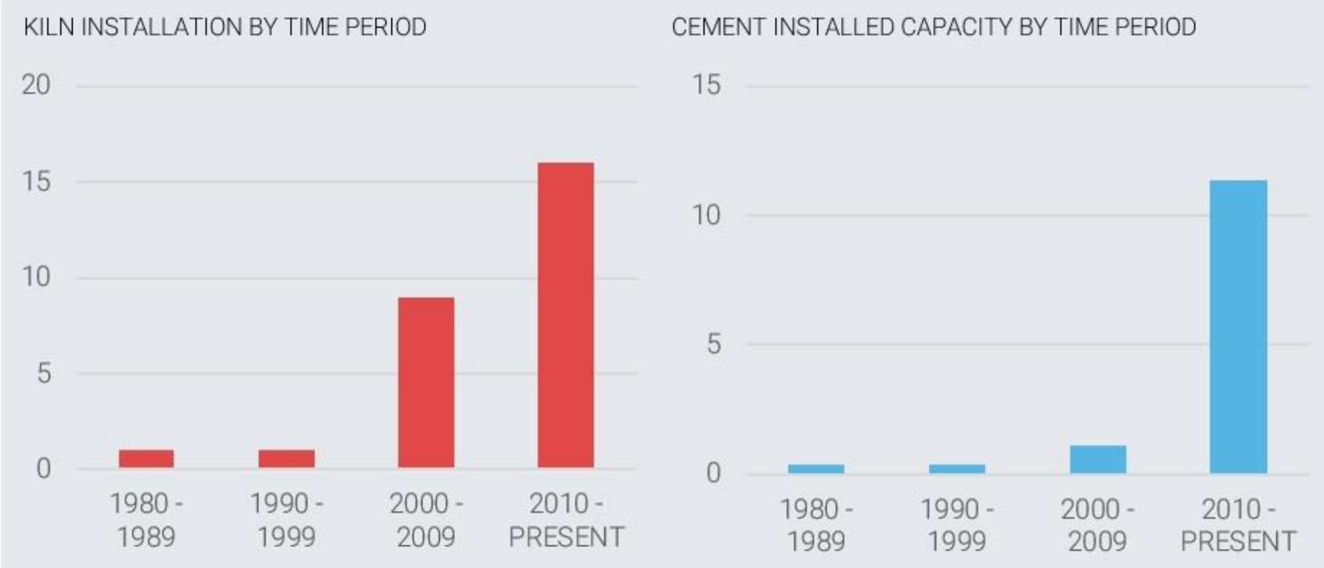
Cement
Business
Research

Ethiopia Cement Market:

High-cost cement producers on the verge of shutdowns or consolidation – VSKs among the most challenged

Ethiopia's cement sector registered the highest CAGR in the last decade when compared to all East African markets (12.8%). The Ethiopian cement industry has so far crossed through three main stages of development: the modest beginnings up to 1984 (less than 0.5 million tonnes in cement capacity), the construction boom of 2004, followed by the steep cement capacity expansion that ultimately led the industry into its current stage of overcapacity that started around 2011/2012.

FIGURE: KILN AND CEMENT INSTALLED CAPACITY (MT) BY TIME PERIOD



Source: CemBR Research, Database and Analysis – note that the capacity is based on own clinker ground excluding any clinker imports to the plants.

After the buoyant trend of recent years, the Ethiopian cement market is expected to decline in 2018. The recent slowdown of cement consumption comes at a time when cement producers are tackling with a long list of challenges: unfavorable supply-demand balance, higher cement prices, escalating production costs, low utilization rates, social unrest and lack of foreign currency.

The supply – demand balance is expected to improve with the capacity additions reduced to a minimum. Given the low cement consumption per capita, the country exhibits a high potential. In the trend of an increasing cement consumption, the 2018 demand decline is expected to be a singular occurrence with utilization rates also expected to climb going forward. Demand projections are assigned with a limited risk as the Government is keen on meeting its construction related objectives.

The Ethiopian cement industry is in a less than favourable position regarding its energy costs. From this perspective, the country is reporting some of the highest costs from the region. The recent capacity additions have induced severe overcapacity in Ethiopia. It is estimated that margins have been declining for all participants and for some (VSK) have reached a very low level.

FIGURE: SUPPLY – DEMAND AND UTILISATION RATE (2018)

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

It is now evident that the high cost producers might have to shut down in order to give the industry a breather in terms of supply – demand balance. If the structure of the industry continues as it is today, profitability may suffer further for all participants until demand catches up with current supply. This is not expected for a few years yet.

Ethiopia's demand projections rely heavily on the country's economic stability, its diversification and the investments made in infrastructure and construction overall. FDI is also an important driver for the market. The country's ability and intention to deliver such growth is strong. The cement market is a major concern for the Government, which has scheduled a clear path for the industry up to 2025. However, it is important to note the challenges faced by the cement companies that have the ability to keep some of them from producing at real demand levels (e.g. escalating production costs). The risk with the cement demand projection is on the upside.