*Terry Pavlopouloss, CemBR*

# WHY ARE CEMENT GIANTS LEAVING DEVELOPING MARKETS?

Terry Pavlopoulos from cement sector consulting firm CemBR sheds light on the 'global cement consolidation fallacy' and the reasons why major cement companies are departing from developing markets, with a focus on Holcim's exit from the Indian market.

**Above:** A construction worker in India. With cement demand booming in the past decade, why did Holcim choose to leave now?
**Credit:** GSK919 / Shutterstock.com.

There has been a spate of cement asset disposals by major cement companies in developing markets in the last few years. Such transactions include Holcim's disposal of its entire Indonesian cement base, CRH exiting Brazil and Holcim abandoning Malaysia. In addition to these significant transactions, many major cement companies have undertaken sales of assets across the board, but mainly in developing markets. The unsuccessful disposals of Holcim Philippines and CRH Philippines are also examples of this trend. It appears that nothing is safe in developing markets. "There are no sacred cows. Everything is on the table" was what the CEO of HeidelbergCement said to analysts at the beginning of 2021.

This is rather surprising. These are the same companies that touted global consolidation as a panacea to all the sector's ills not too many years ago. After a bout of what many describe as 'cannibalistic' behaviour in the last 15-20 years when Lafarge acquired Blue Circle Industries, Cemex acquired RMC, Holcim acquired Aggregate Industries, HeidelbergCement acquired Hanson, Lafarge and Holcim merged, CRH acquired the disposed assets stemming from LafargeHolcim's merger, and HeidelbergCement acquired Italcementi - to mention just the largest ones - there is now a distinct reversal of that trend.

## But why?

First, let's review the reasons behind the push for global consolidation. There were two main themes supporting it. The first was the strong belief that geographical diversification, particularly in developing markets where cyclicality was not then an issue, would protect the major producers from the notorious cyclical behaviour of developed markets. The second assumed that developing markets will only experience growth going forward whilst lacking any meaningful presence of indigenous players.

So, via the above-mentioned mega-mergers, the acquirer satisfied both the above considerations. For completeness, one should perhaps mention 'synergies' as an auxiliary reason for subsuming a major competitor, a reason used by most participants in the mega-merger period.

## What has changed?

However, the two reasons upon which global consolidation was based had never been tested before. Now we know that even developing markets will show cyclical behaviour. More importantly, the surge in indigenous players' new investments flooded many markets with high quality cement assets. So, although growth may have been good in certain markets - India's consumption grew from around 220Mt in 2011 to 335Mt in 2019, the new capacity additions created unfavourable supply-demand profiles. In addition, most developing markets, mainly because of new entrants, have become fragmented, further increasing competitive pressures.

If we throw into the mix that in the last decade, we have seen subdued or negative growth in many developing markets, the reasons behind global consolidation now appear questionable. See Figure 1.

2021 was clearly a better year in many of these markets, but the cyclical behaviour of developing markets has been confirmed in the last decade. In short, the fact that developing markets can be cyclical, and that indigenous players have invested heavily in cement assets - exacerbating the supply-demand imbalance and increasing fragmentation - plus the now obvious absence of synergies - have now shone light on the global consolidation fallacy.

## Is there another reason to exit?

It has been widely reported that major cement companies may seek to unburden themselves from the heavy '$CO_2$ weight' that developing markets carry, giving rise to another divestment driver. This will be reviewed later in this article, but let us first take a closer look into the Holcim Indian assets disposal.

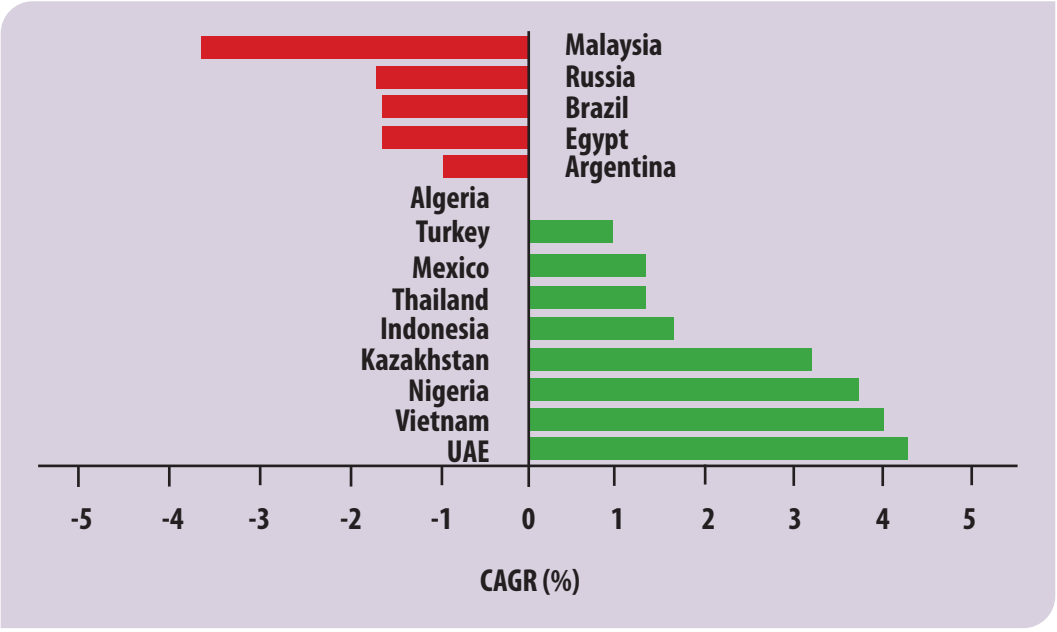
## Case-study: Holcim India Disposal

**This is not a tweak!** The Holcim Indian disposal is a major divestment. It is not an attempt to 'tweak' the asset base or get rid of some unattractive operations. Holcim is exiting India altogether, where the company has a nationwide footprint, after close to 20 years in the country. Coupled with the recent disposals of Malaysia and Indonesia, and the unsuccessful exit from the Philippines, there is an indication that Holcim is attempting to exit a whole continent, not merely one market. It is also reported that the deal includes some 78 ready-mix concrete plants as well.

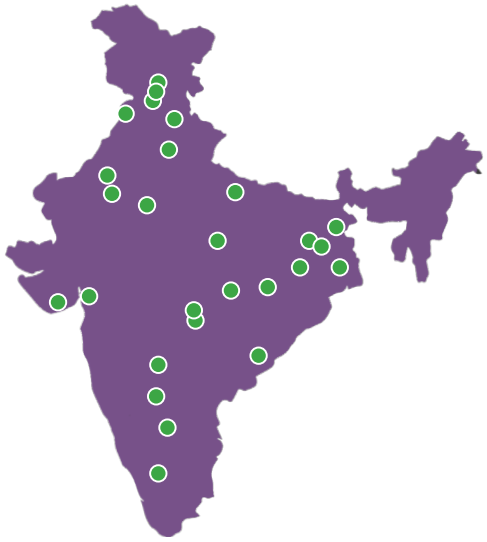
## Has the growth been bad?

India was doing quite well until the onset of the pandemic in 2020. From 2010 to 2019, the market grew by a compound annual growth rate (CAGR) of 5.5%. In 2020 the market experienced a whopping 14.4% decline due to the pandemic, driving the 2010-2020 CAGR back to around 3.3%. The expectation is that the market will have recovered strongly in 2021.

So, the market's growth path, although not as strong as in the previous decade, was reasonable in India. However, the industry also experienced a supply growth of around 5% CAGR between 2010 and 2020. As a result, at the end of 2020 the industry found itself in an overcapacity situation. Furthermore, the Consolidation Index in the market stood at around 820 (0 = Perfect competition,




**Left - Figure 1:** Compound Annual Growth Rates (CAGR) in cement consumption for various large developing markets (2012-2020).



**Right - Figure 2:** Ex-Holcim assets in India.
**Source:** CGC™.

| Company | Plants | | |
|---|---|---|---|
| | Integrated | Grinding | Total |
| Ambuja | 6 | 8 | 14 |
| ACC | 11 | 6 | 17 |
| **TOTAL** | **17** | **14** | **31** |

**Right - Table 1:** Ex-Holcim plants in India.
**Source:** CGC™.

| Company | Cement Capacity (Mt/yr) | | | Clinker Capacity (Mt/yr) |
|---|---|---|---|---|
| | Integrated | Grinding | Total | |
| Ambuja | 18.5 | 13.0 | 31.5 | 19.8 |
| ACC | 25.4 | 9.5 | 34.9 | 20.9 |
| **TOTAL** | **43.9** | **22.5** | **66.4** | **40.7** |

**Right - Table 2:** Ex-Holcim cement capacity in India.
**Source:** CGC™.

| Per tonne of Cement Capacity | Per tonne of Clinker Capacity |
|---|---|
| US$203 | US$330 |

**Right - Table 3:** Costs of Adani Group's acquisition of Holcim assets in India.
**Source:** Holcim Announcement / CemBR.

10,000 = Monopoly), which indicates that the industry is highly fragmented.

## What about the price?

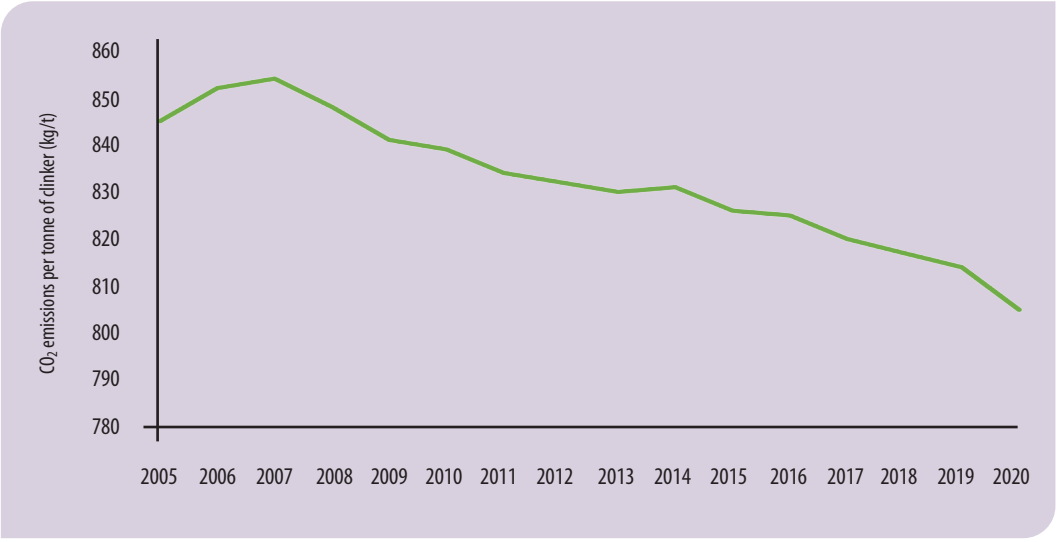
This is not a detailed analysis of the transaction, merely we are trying to establish some metrics as to what kind of price was paid for the Holcim Indian assets. Firstly, the value of the transaction from the Holcim announcement indicates that Holcim's stake in the combined business is valued at US$6.6bn at the time of writing. Assuming that there is no debt associated with this value then the buyer acquires the business on the multiple shown in Table 3.

Although CemBR cannot comment on the valuation of this business, the per tonne of clinker price seems above replacement costs. Also, bearing in mind that out of the 31 cement plants, 14 are grinding units, the price per tonne of cement also appears to be above replacement costs.

What is also noteworthy is the absence of any other major cement producer from the list of interested parties for this disposal. At the time of writing, we know that Holcim has agreed a deal with the Adani Group, an Indian firm.

## So what about $CO_2$?

In CemBR's recent report on the EU ETS & Cement, we have presented the historical performance of all scheme plants in Europe. Figure 2 shows the progress of the industry since its inception. **NB:** This is a European average and not an average of all the major cement producers that operate in Europe i.e., it includes all clinker producing plants, regardless of owner.




**Right - Figure 2:** Long-term evolution of $CO_2$ emissions per tonne of clinker within EU ETS (kg/t).
**Note:** y-axis values do not reach zero.

So, since the inception of the scheme, the European cement industry managed to reduce the emission per tonne of clinker by a mere 0.4% CAGR. In 2020, despite a significant usage of alternatives, the industry still emitted 805kg of $CO_2$ per tonne of clinker. This, by many industry observers, is not considered as a stellar performance.

Could cement plants in India or Southeast Asia or other developing markets be able to produce clinker at 800kg of $CO_2$? CemBR believes that many of them could, particularly in Southeast Asia where over 95% of installed capacity has precalciners, hence are able to use alternative fuels.

It is therefore debatable as to whether the majors, particularly those who have a strong presence in the EU ETS scheme, can use $CO_2$ as the main reason for exiting developing markets.

## Conclusions

Apart from the price, the clues given above as to why major cement producers exit developing markets can be summarised as follows:

- Emergence of new local entrants with brand new plants;
- Developing markets can also experience a cyclical demand profile;
- Supply – demand balances have become unfavourable;
- Apparent inability of majors to compete effectively with locals – particularly new entrants with new assets;
- Most such markets are highly fragmented, increasing competition and price pressures.

Our view is that the above reasons are behind most of the recent disposals of developing markets' assets by major cement companies.

CemBR's opinion is that $CO_2$ emissions, as applied to the departure of major producers from developing markets is an excuse at best or another misguided trend (much like global consolidation) at worst. After all, if a major cement company wishes to achieve their ambitious $CO_2$ targets by abandoning the cement sector, they may do so. Whether this is a good or bad idea is for their shareholders to decide.

We at CemBR, being a cement only organisation, consider reducing the carbon emissions per tonne of clinker (or $CO_2$ emissions per tonne of cementitious materials) the only logical way of addressing the $CO_2$ issue in our industry.

## Notes

All data and insights based on: CGC™, and CemBR's report on EU ETS & Cement.