

EAST AFRICA TO 2023: HOW WILL INCREASING SELF-SUFFICIENCY IMPACT THE REGION?

An analysis on the changing character of East African markets



INTERCEM

*“Cairo to Cape Town -
the Challenge of Change”*

17th-19th September 2018 | Dusit Thani LakeView Cairo

WELCOME TO CemBR - CEMENT BUSINESS RESEARCH

Providing “value for money” data and insights to corporates and financial institutions.

CemBR was set up to provide data and insights to senior professionals interested in assessing investments in the global cement sector. CemBR provides data and insights at a level and granularity that can support significant investment decisions in the industry.

CemBR Resources:

Strategy and Finance	Technology including environmental expertise
Marketing	Specialist research in the cement sector
Operations and Production	Extensive network of cement professionals

THE ASPECTS ASSESSED BY CemBR AND WHY

We research and report on all business aspects of the cement industry.

BASIC FACTS

- Macroeconomic Considerations
- Cement Market Size and past growth
- Products by type
- End users
- Vertical integration
- Distribution chain
- International trade
- Supply characteristics
- Cement plants data / map
- Regional v national

CemBR's RANKING TOOL (CemBRRT™)

- Overall market attractiveness assessment

ANALYSIS – MARKET CHARACTERISTICS

- Demand Scenarios
- Reality Check: need, capability and funding
- Further Reality Check: per capita, Cement Economic Curve
- Supply – demand balance considerations, S-D balance and DCUF™
- International Trading Assessment Matrix (ITAM™)
- Industry Structure and Dynamics (ISD™)
 - Nature of Market Participants
 - Consolidation Index
 - Industry Cost Structure and Dynamics including industry profitability and cost escalation forecasts
- Licence to Operate Considerations

CONCLUSIONS

- Supply – demand balance
- Propensity and ability to export / import
- Industry profitability
- License to operate

CemBR produces ready made reports on markets with enough depth and granularity to enable the reader to assess an investment decision.



**Cement
Business
Research**

TOOLS AND METRICS

CemBR uses a complex set of tools and metrics in its reports.

Demand Projections, Reality Checks: Need, Capability And Funding Assessment, Per Capita Consumption Comparison and Position On Cement Economic Curve.

PLUS PROPRIETARY CemBR ASSESSMENTS:

Domestic
Capacity
Utilisation Factor

DCUF™

Propensity to
Export / Import

International
Trading
Assessment
Matrix

ITAM™

Capability to
Export / Import

Industry Structure
and Dynamics

ISD™

Nature of
Participants,
Consolidation
Index, Cost
Structure and
Industry
Profitability

CemBR's Ranking
Tool

CemBRRT™

Overall Market
Attractiveness
Assessment



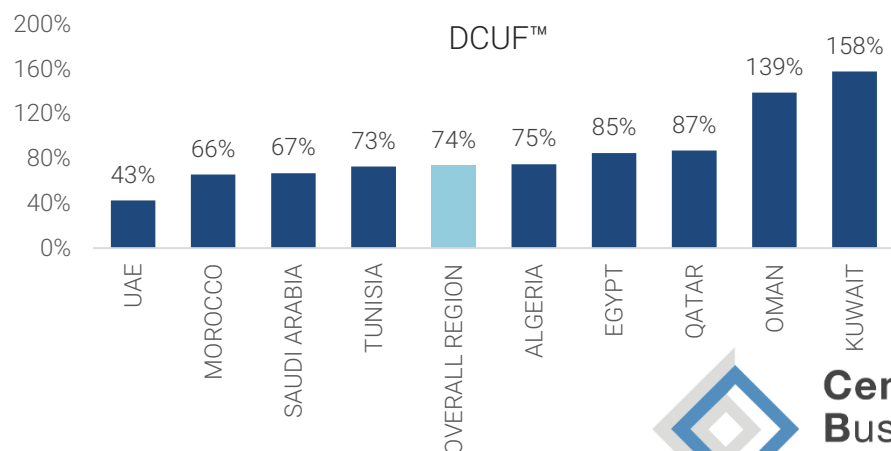
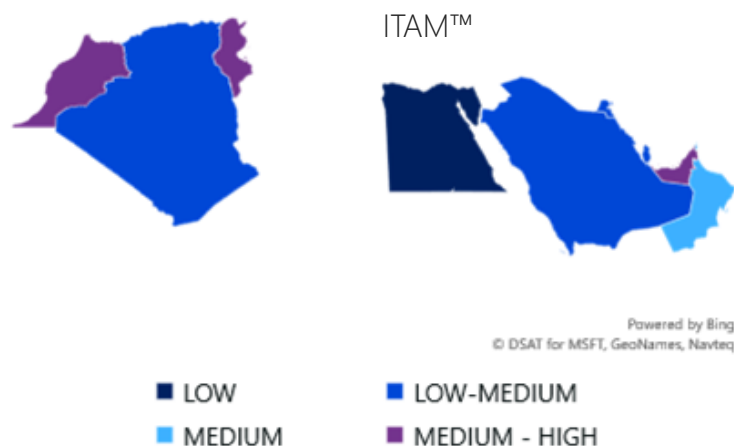
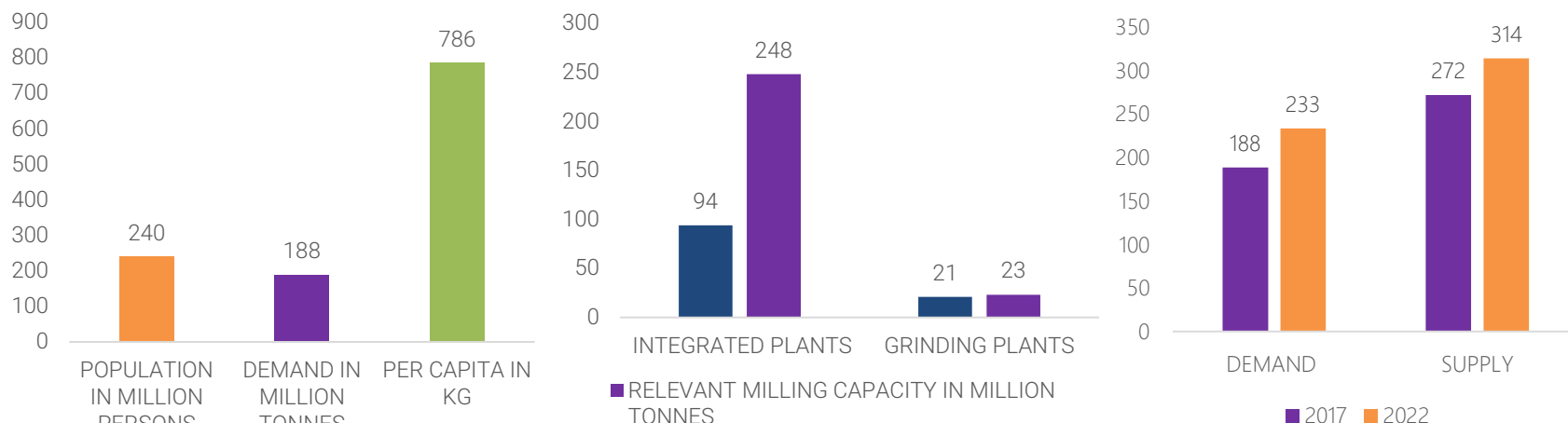
**Cement
Business
Research**

MENA: WHY IT MATTERS?

No cement market can be considered in isolation. The struggles of one region can easily impact another region in the conditions of a competitive/global market and at least reasonable trading conditions (see ITAM™).

The MENA region boasts a large number of newly installed kilns and their average size is high. The supply - demand balance reveals an oversupplied market overall, with some of the biggest markets exhibiting overcapacity.

The large Government-led construction projects lead to some of the highest cement consumption per capita, especially in the Middle East. Qatar is by far the highest in this ranking.

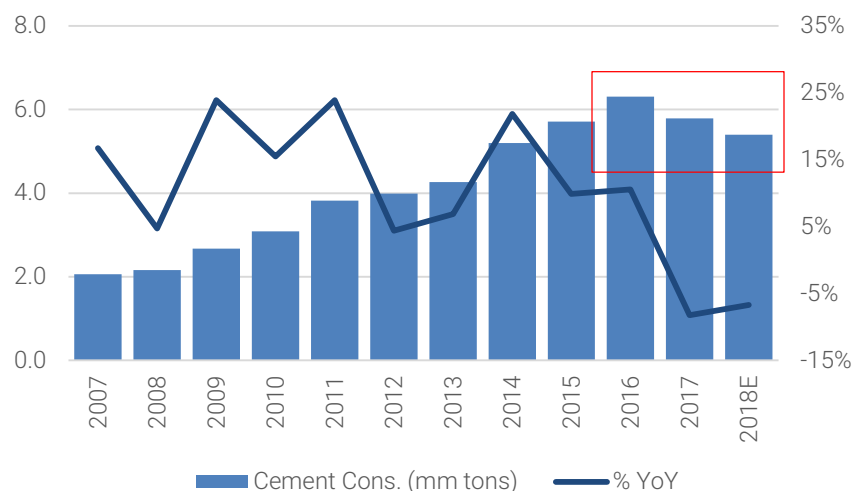


KENYA: TWO YEARS OF HARDSHIP

Kenya is on its way to a second consecutive annual drop in cement consumption, which barely keeps per capita consumption just above the 100 kg per inhabitant.

Overall, cement consumption expanded by almost 11% CAGR between 2007 – 2017. However, the recent slowdown of the construction sector severely impacted the market and the financials of cement companies.

With only 4 out of the 11 Kenyan cement plants being integrated, clinker imports remain an important component of the cement market. Kenya is also exporting cement to neighboring markets.



INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E
REAL GDP GROWTH RATE (%)	6.9%	0.2%	3.3%	8.4%	6.1%	4.6%	5.9%	5.4%	5.7%	5.8%	4.8%	5.5%
POPULATION (MILLION)	38.1	39.1	40.2	41.4	42.5	43.6	44.8	46.0	47.2	48.5	49.7	51.0

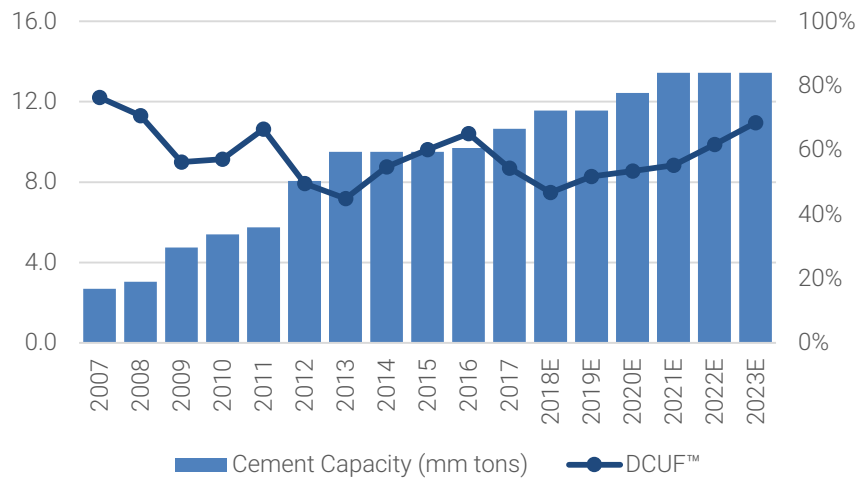
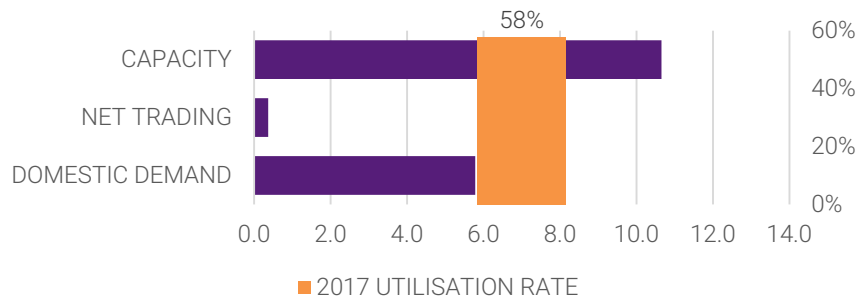
- The construction sector registered a slowdown during 2017 (8.6% YoY vs. 9.8% and 13.9% in 2016 and 2015, respectively). Several factors were instrumental in this: the controversial presidential elections, the completion of major infrastructure projects, lack of financing for the private sector and the drought.
- The slowdown is expected to continue in 2018, with public cement companies already reporting losses and difficulties in the first two quarters of the year.

KENYA: CEMENT PLANT PROJECTS SCRAPPED

The depressed cement consumption of the last two years led to the cancellation of some of the projects previously announced (including Dangote Cement, Cemtech, ARM Cement expansion).

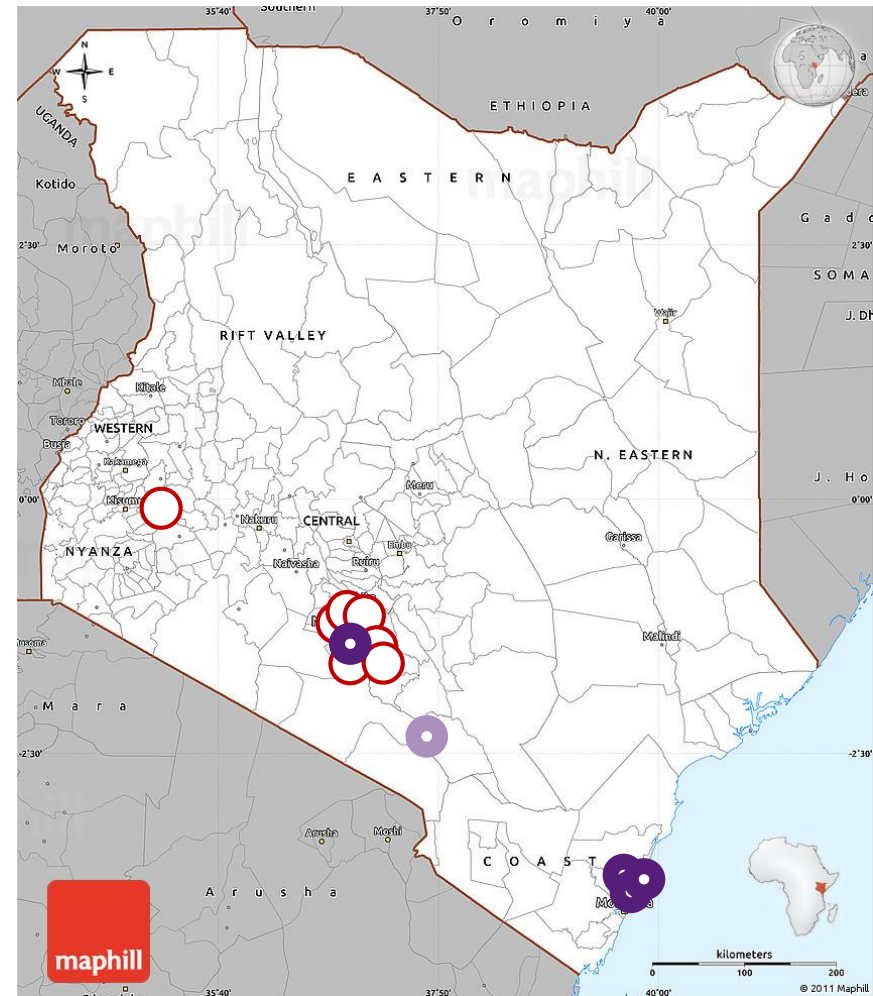
INDICATOR	Integrated	Grinding
TOTAL PLANTS (NUMBER)	4	7
TOTAL MILLING CAPACITY (MM. TONNES)	2.8	8.8
TOTAL COMPANIES (NUMBER)	4	7

Note: National Cement is commissioning a clinker unit (1.2 mm tons). The total clinker capacity of the country is estimated at 4.3 million tons p.a.



LEGEND: ● INTEGRATED PLANT ○ GRINDING PLANT ● CLINKER ONLY

Source: Industry Data; Companies' Reports/Announcements

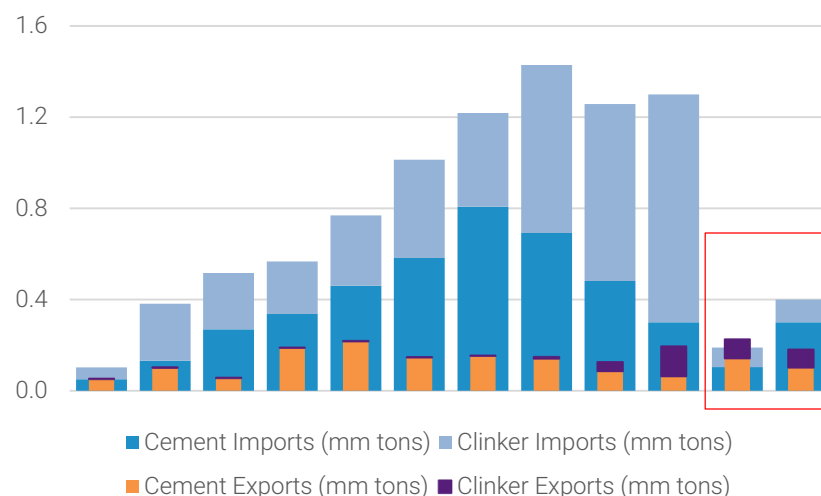
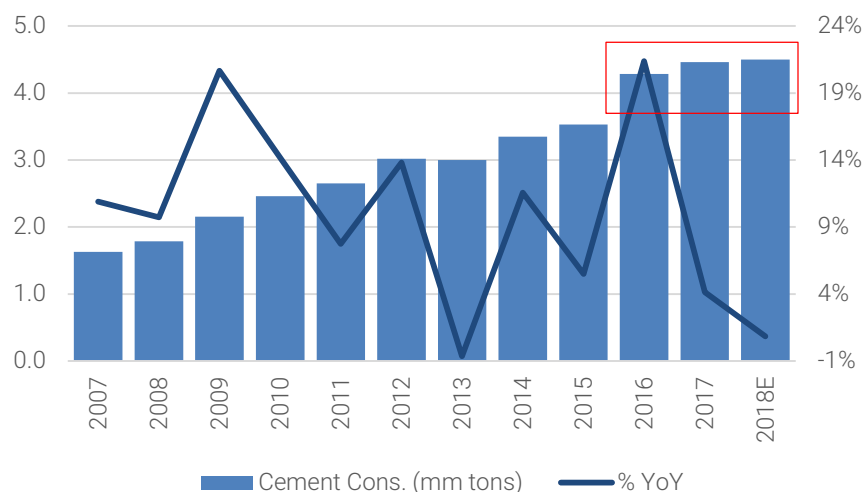


TANZANIA: CEMENT CONSUMPTION DYNAMICS

Tanzania's cement market expanded considerably over the last decade, spurring increased interest both for consolidating positions in the market and for entering it.

Cement consumption registered a 10.6% CAGR between 2007 and 2017. During the same period, construction GDP expanded from 7.9% to 15% as a percentage of nominal GDP.

Along with the increase in cement consumption, imports boomed, with clinker imports gaining an even higher importance as technical issues and rising costs limited national production.



INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E
REAL GDP GROWTH RATE (%)	8.5%	5.6%	5.4%	6.4%	7.9%	5.1%	7.3%	7.0%	7.0%	7.0%	6.0%	6.4%
POPULATION (MILLION)	41.9	43.3	44.7	46.1	47.6	49.1	50.6	52.2	53.9	55.6	57.3	59.1

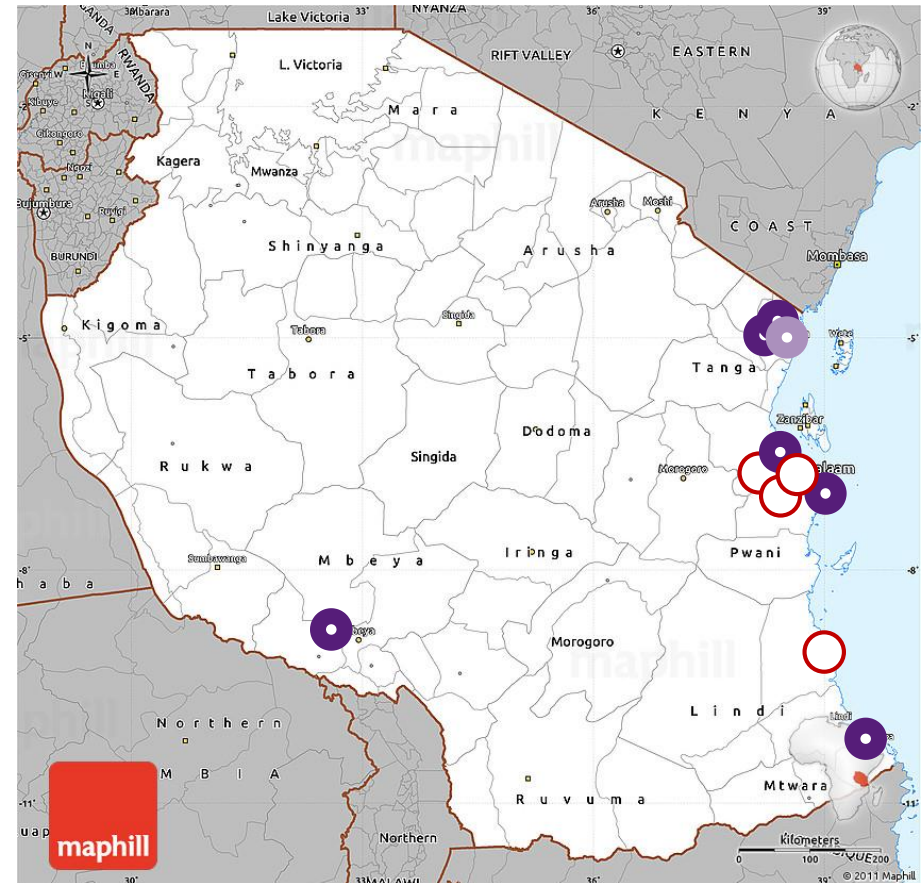
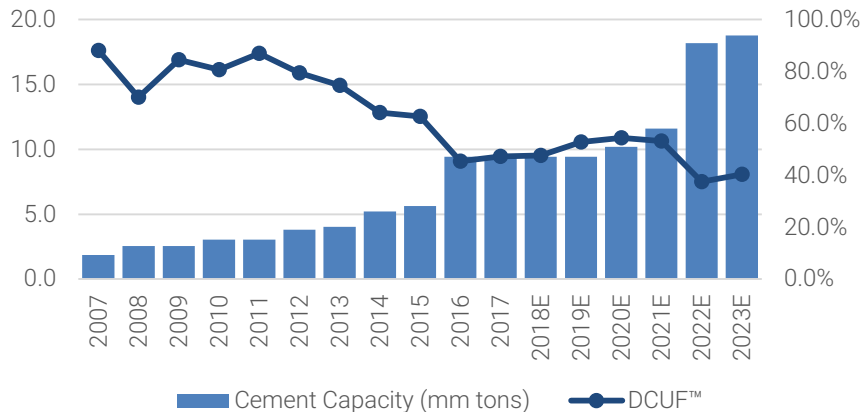
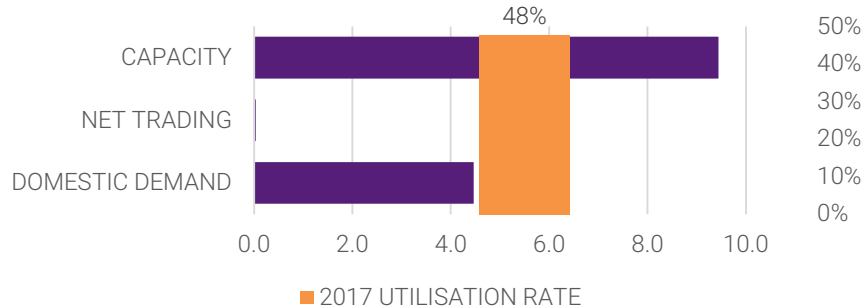
- Despite the double-digit growth rate of the cement market, cement consumption per capita remains subdued (<80 kg/capita).
- The recent stagnation of the market was generated by a combination of factors: lower availability of domestic cement as a consequence of technical issues, increasing production costs (related to the coal import ban), pricing pressure, etc.
- The major trading partners during 2013-2017 were Pakistan (cement imports), UAE and Iran (clinker imports), while exports generally targeted Burundi, Kenya, Malawi, DR of Congo and Rwanda.

TANZANIA: TACKLING LOW UTILIZATION RATES

With cement capacity increasing more rapidly than consumption, Tanzania is currently going through a period defined by low utilization rates, which could deepen further if mooted expansions and greenfield projects materialize.

INDICATOR	Integrated	Grinding
TOTAL PLANTS (NUMBER)	6	4
TOTAL MILLING CAPACITY (MM. TONNES)	8.0	1.4
TOTAL COMPANIES (NUMBER)	6	4

*Note: ARM Cement also owns a clinker only unit (1.2 million tons/year).
The total clinker capacity of the country is estimated at 7 million tons p.a.*



LEGEND: ● INTEGRATED PLANT ○ GRINDING PLANT ● CLINKER ONLY

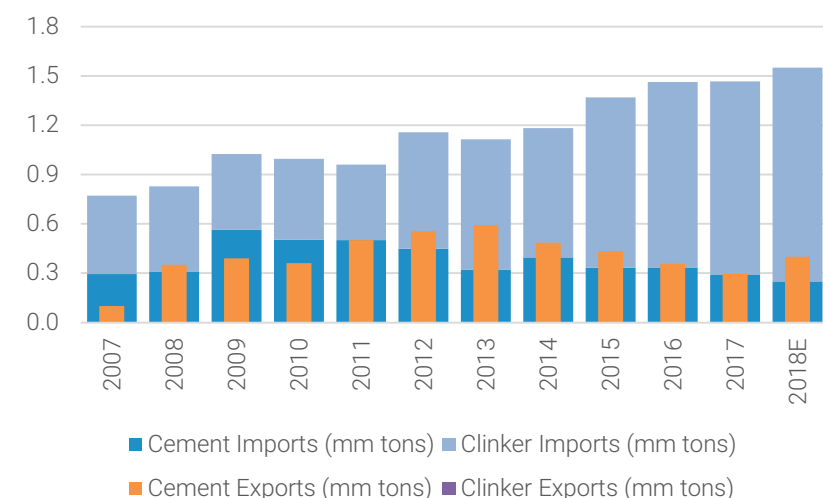
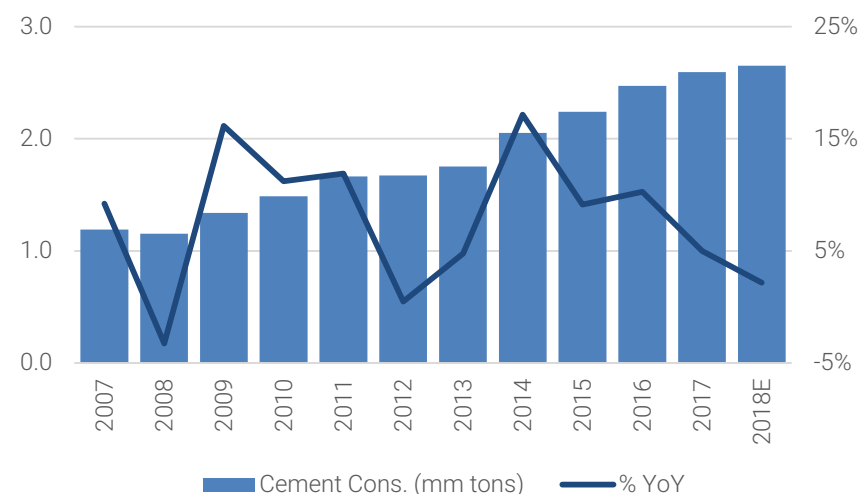
Source: Industry Data; Companies' Reports/Announcements

UGANDA: CONSTRAINED GROWTH POTENTIAL

Uganda benefits from booming construction activity. However, production difficulties reported by cement companies and high prices limit growth. The Government urged companies to find a solution quickly or else cheap imports will be allowed into the market.

With a cement consumption estimated at 2.6 million tons in 2017, the market expanded by 8.1% CAGR since 2007 registering the only drop in 2008 and a slowdown in 2012.

UAE, China and Japan were the main clinker sources for Uganda between 2013-2017, with cement imports coming mostly from Kenya. Uganda exports cement to Rwanda, DR of Congo and South Sudan.



INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E
REAL GDP GROWTH RATE (%)	8.1%	10.4%	8.1%	7.7%	6.8%	2.2%	4.7%	4.6%	5.7%	2.3%	4.5%	5.2%
POPULATION (MILLION)	30.6	31.7	32.8	33.9	35.1	36.3	37.6	38.8	40.1	41.5	42.9	44.3

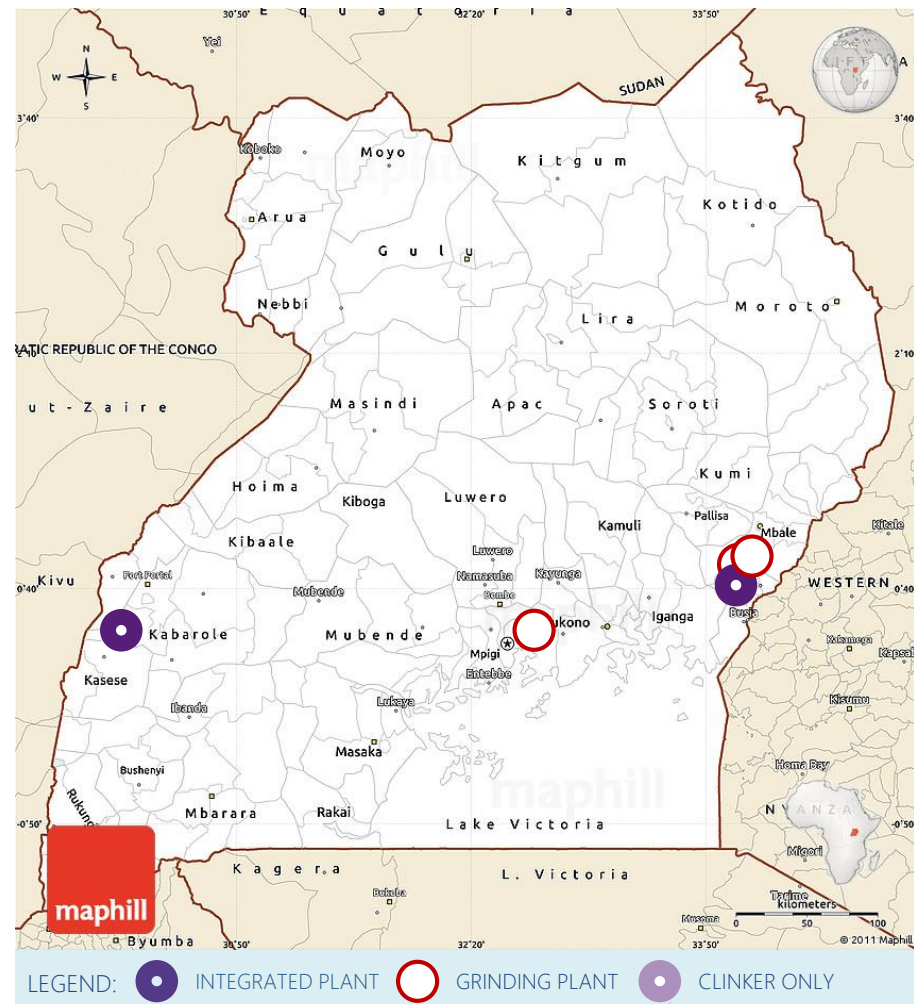
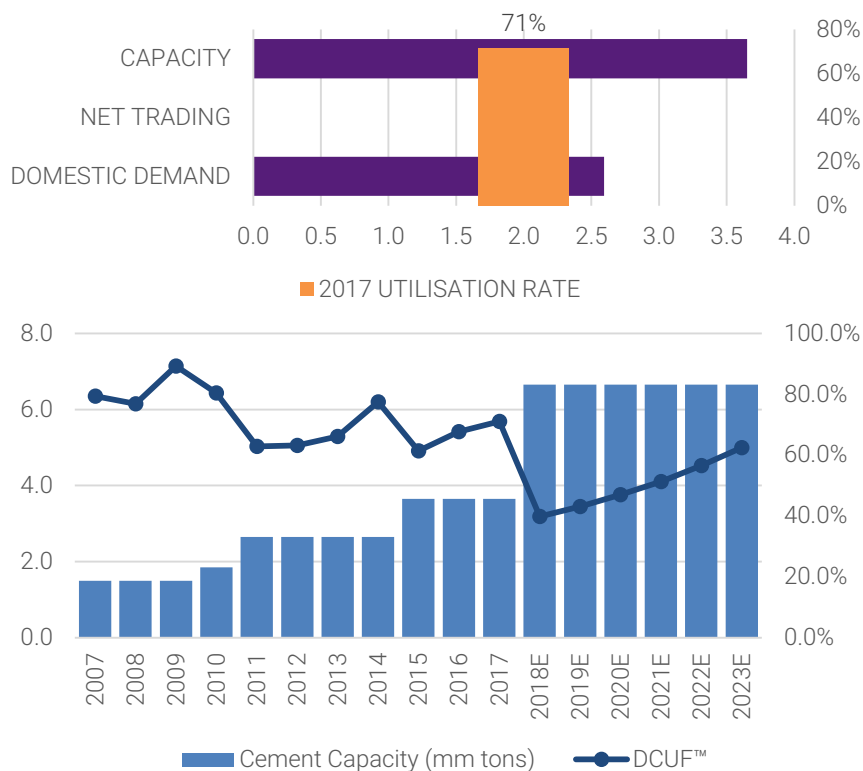
- Cement consumption is expected to grow only marginally in 2018 due to several factors:
 - the constrained domestic production given the continued power outages and routine maintenance;
 - a sharp increase in cement prices, which may limit demand, which could otherwise increase considerably given the major construction projects (Karuma dam, Isimba dam, construction projects in the oil & gas industries);
 - Higher focus on exporting markets, coupled by delays in clearing clinker imports and a 10% import duty on clinker.

UGANDA: REACHING SELF-SUFFICIENCY?

If cement imports are expected to dry out on the back of sufficient cement milling capacity, clinker imports will intensify as Uganda is severely constrained in regards to its clinker capacity. Plans are underway to secure limestone reserves, but this is a long-term objective.

INDICATOR	Integrated	Grinding
TOTAL PLANTS (NUMBER)	2	3
TOTAL MILLING CAPACITY (MM. TONNES)	3.9	2.8
TOTAL COMPANIES (NUMBER)	2	3

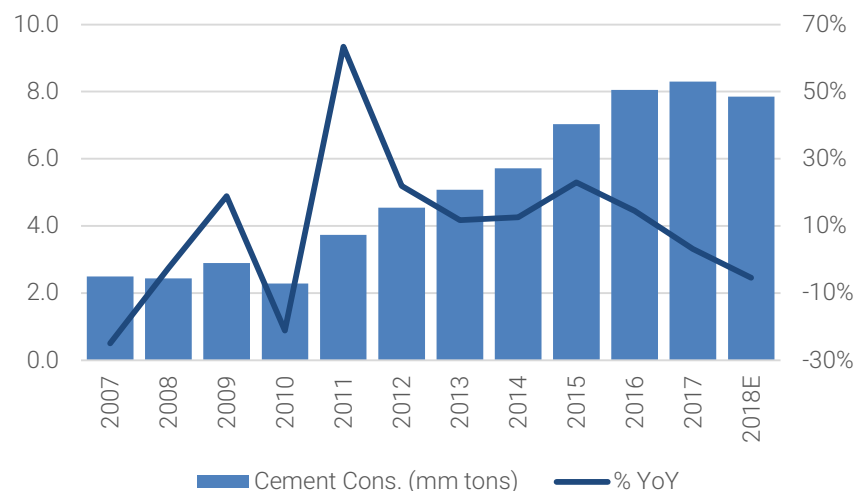
Note: The total clinker capacity of the country is estimated at less than 1 million tons p.a.



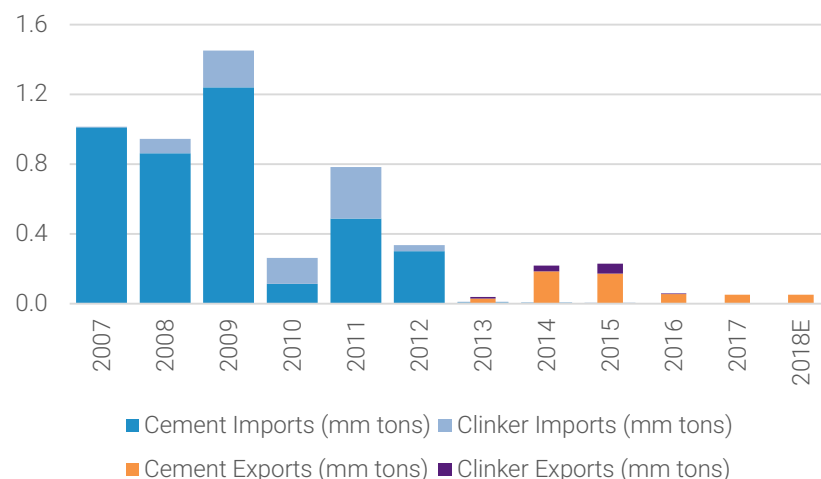
ETHIOPIA: HIGH PRICES AND POLITICAL INSTABILITY

The political instability in parts of the country, as in the Oromia Regional State, led to a shortage of cement and a sharp increase in prices.

Ethiopia registered the highest 2007-2017 CAGR when compared to Kenya, Tanzania and Uganda (12.8%). Despite the impressive growth, cement per capita remains at below 80 kg/capita.



Along with the expansion of its domestic cement capacity, Ethiopia completely changed its trading status. With imports reduced to zero, exports are limited also by the geographical footprint of the industry.



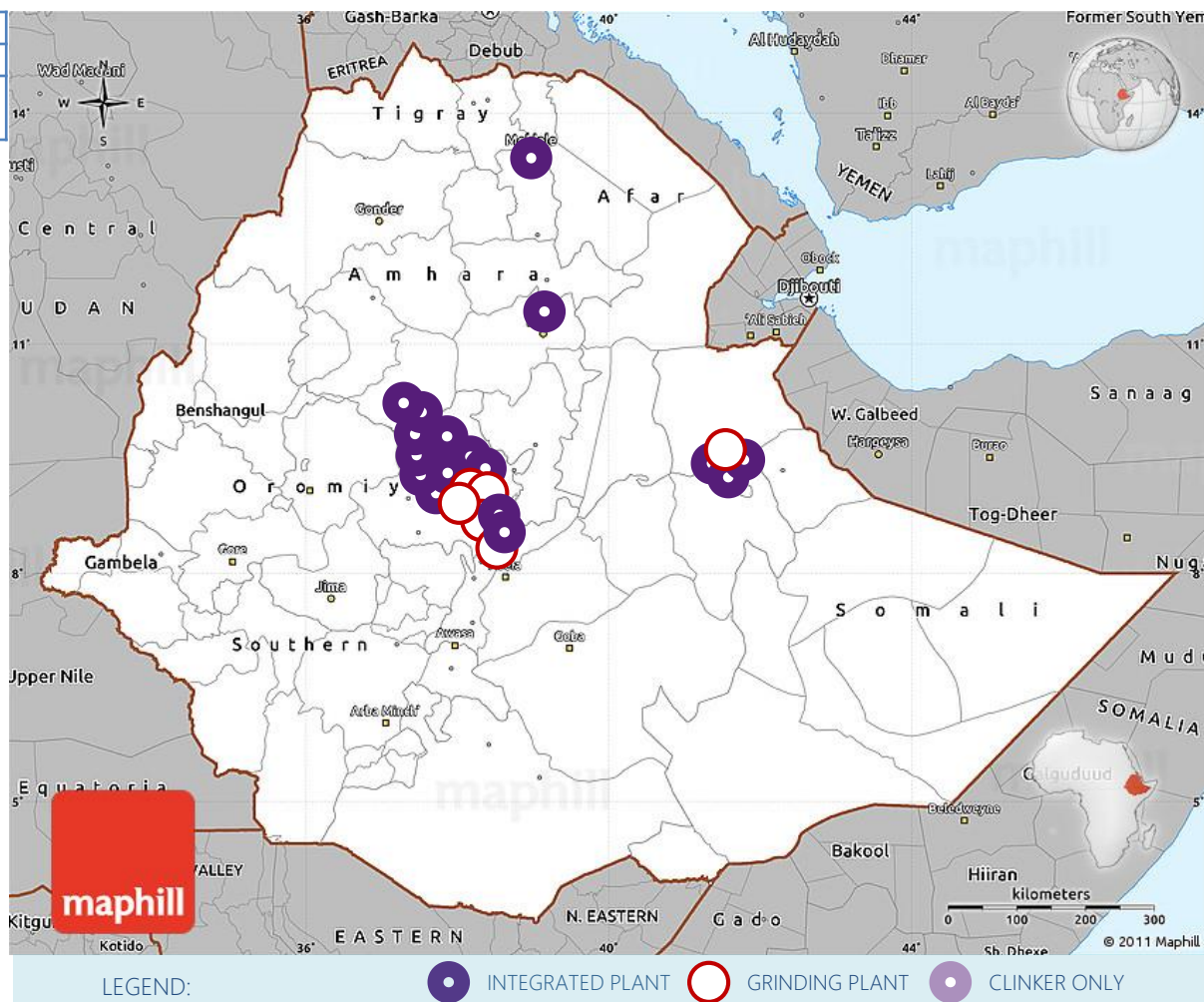
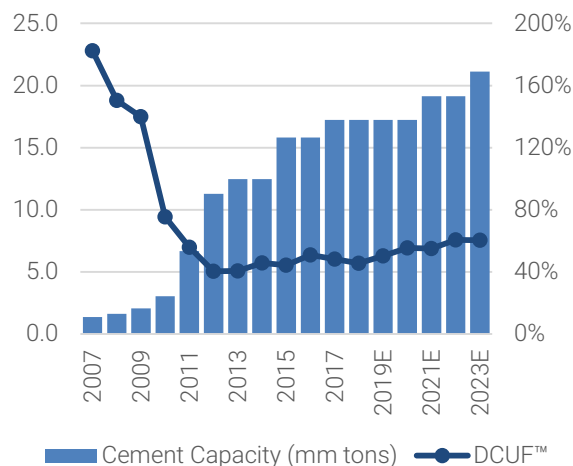
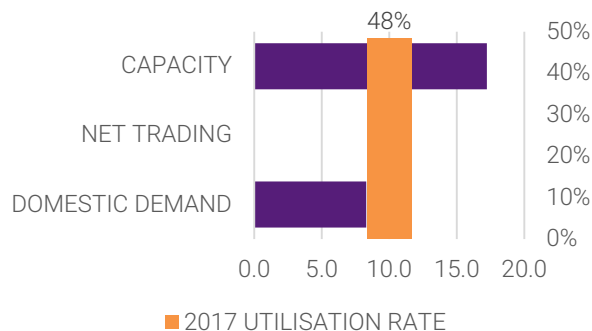
INDICATOR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E
REAL GDP GROWTH RATE (%)	11.8%	11.2%	10.0%	10.6%	11.4%	8.7%	9.9%	10.3%	10.4%	8.0%	10.9%	8.5%
POPULATION (MILLION)	81.0	83.2	85.4	87.7	90.0	92.4	94.9	97.4	99.9	102.4	105.0	107.5

- The quintal of cement was sold at 250 birr (US\$9) at Addis Ababa in March 2018, while in some remote regions the similar quantity could be bought for up to 300 birr (US\$10.8).
- Besides an increase in production costs due to currency devaluation, the price hike was also generated by the political instability that is impacting on transportation routes. Employee strikes and the introduction of fees paid to youth cooperatives for raw materials are also important to note. Construction activity also slowed down recently.

ETHIOPIA: AT A CROSSROAD - THE OLD VS. THE NEW

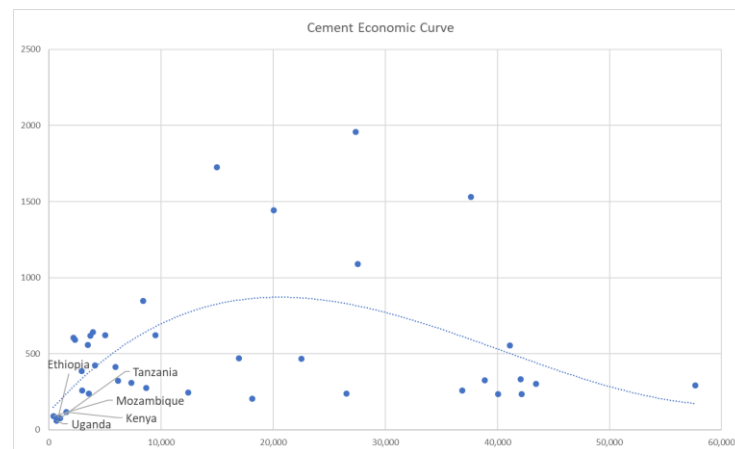
Ethiopia reports a low average cement capacity per plant compared to international standards (0.75 million tons), part of the plants being even below 0.1-0.2 million tons (vertical shaft kilns).

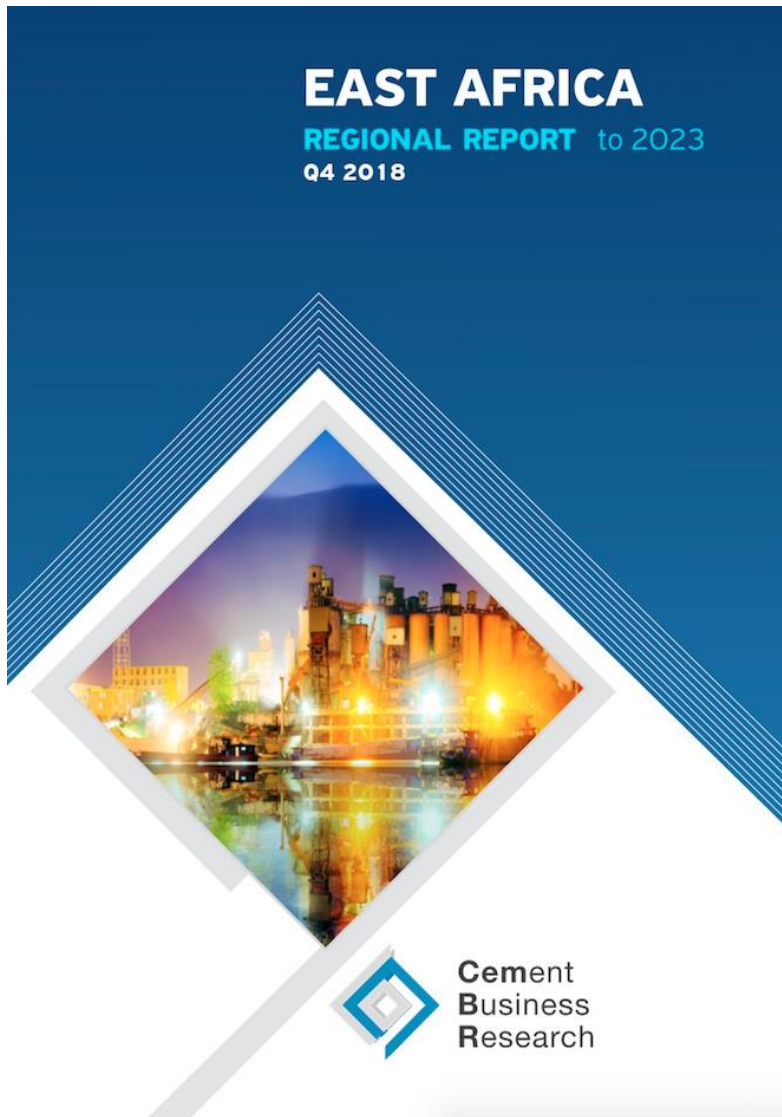
INDICATOR	Integrated	Grinding
TOTAL PLANTS (NUMBER)	17	6
TOTAL MILLING CAPACITY (MM. TONNES)	14.8	2.4



CONCLUSIONS

- The East African markets, similarly to a large part of Sub-Saharan Africa, are on paper “**lands of opportunity**” for the cement industry:
 - Cement consumption per capita remains one of the lowest in the world
 - Populations are expected to grow significantly in the next 20-30 years whereas urbanisation rates are currently very low
 - As a result cement consumption is projected to grow significantly in the next decades
- The main unknown is **how fast will this growth materialize?**
- This long term picture has encouraged investors to add significant levels of capacity in the last few years. This is a usual phenomenon in cement; supply added at large chunks pre-empts demand and creates short to medium term imbalances.
- This has led to **changing the character of the industries** in the last years with some markets rebalancing their imports/exports equation. Clinker imports are still important in certain markets (attention should be placed on the clinker versus cement capacity).
- Overall, a **declining trend in prices** with some variations recently, driven mainly by production cost increases.
- Each market has its own characteristics, structure and participants, with a different level of consolidation and dynamics.
- **License to operate issues:** tendency for protectionism, which depending on Governments’ reaction may result to both positive and negative outcomes for the industries.
- The overall effect of the increasing self-sufficiency coupled with an ever increasing cost structure has put a strain on the **financial performance** of regional players.





REGIONAL REPORT ON EAST AFRICA

COUNTRIES EXAMINED:
ETHIOPIA, KENYA,
MOZAMBIQUE, TANZANIA,
UGANDA

AMAZING “VALUE FOR MONEY”
CONFERENCE PRICE – COME
AND TALK TO US FOR DETAILS.

Visit cementbusinessresearch.com for
more details