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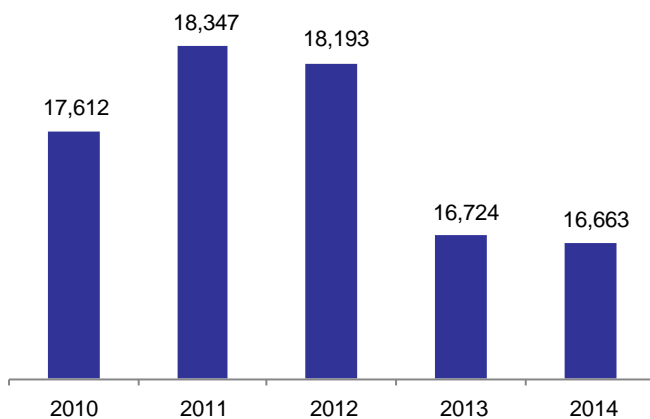
Ever since 2011, construction, real estate and therefore the cement industry have been negatively impacted by the eruption of the Arab spring, especially in neighboring Syria, and by the local instability be it on the political front or the security front.

The cement industry is also impacted by the government's under investment in infrastructure works. The Lebanese government is burdened by servicing its debt which represented 140% of GDP in 2014 and by subsidizing the state-owned electricity company, *Electricité du Liban (EDL)* in a range of \$1 to \$1.5 billion/year.

### Slump in Construction in 2014

In 2014, the number of construction permits dipped to their lowest level since 2010 and the switch to smaller plots of land persisted. According to figures released by the Orders of Engineers in Beirut and the North, the number of authorized construction permits slid by a yearly 0.36% to 16,663. The construction area authorized by permits (CAP) increased by a yearly 5.8% to reach 13,545,707 sqm in 2014, but that was only a partial recovery from the 13% slump registered a year earlier. In fact during the month of December alone, the number of transactions slid by 0.68% and totaled 1,308 while the CAP recorded a 17.68% double-digit drop to 986,113 sqm. In the face of frail demand, developers were compelled to turn to smaller-sized construction projects.

### Number of Construction Permits

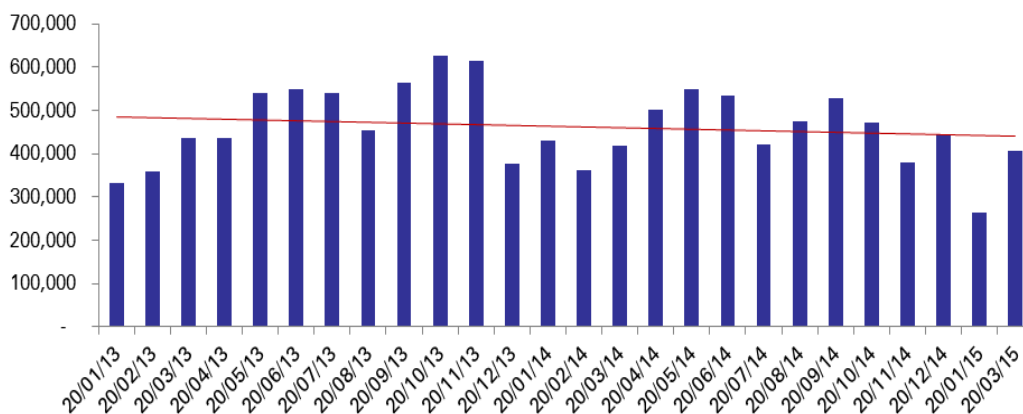


Source: Orders of Engineers in Beirut and the North

### Cement Industry Mirrors Weak Construction and Real Estate Activity in 2014

The cement market downturned in 2014 on account of the regional and local political instability, most strikingly the vacancy of the Presidential seat. According to the Central Bank of Lebanon, the number of cement deliveries dropped by 5.3% in 2014 to reach 5.52 Million tons (Mt). Moreover, the market suffered a lack of solvability, rendering the collection of dues on the market a difficult task.

#### Cement Deliveries (In tons)



Source: Banque du Liban

The move to smaller plots of land seen in the construction sector has also affected the demand for cement. Local consumption of grey cement has dropped from 5.74 Mt in 2013 to 5.48 Mt in 2014 and the local consumption of white cement declined by an annual 3,500 tons to reach 92,000 tons in 2014. Demand and purchasing power remain steered towards small housing projects of 160-170 square meters even in the regions of Beirut and Mount Lebanon, considered as the most appealing in terms of construction and land exploitation.

The weak demand was reflected on the prices of grey cement. The price of one ton of grey cement registered a decrease (sold in bags) from \$94 in 2013 to \$92 in 2014. It is worth noting that the price of grey cement sold in bulk is lower than that sold in bags and stood at \$85/ton in 2014, the same as 2013.

Two other companies than HOLCIM are present on the Lebanese cement market: Cimenterie Nationale and Ciment de Sibline. Contrary to HOLCIM, which sells grey and white cement as well as ready to use concrete, Cimenterie Nationale and Ciment de Sibline sell only grey cement.

HOLCIM held a market share<sup>1</sup> of 38% in 2014, higher than 2013's 37%. The company's sales totaled 2.07 Mt compared to 2.13 Mt back in 2013. However, the picture was brighter for HOLCIM's grinding station in Northern Cyprus. In fact, sales of the station in Northern Cyprus grew by an annual 28.5% going from 140,000 tons in 2013 to 180,000 tons in 2014.

HOLCIM, which also sells ready to use concrete, noted that the concrete market also contracted in 2014. In fact, competition on the concrete market increased which led to a contraction in HOLCIM's concrete sales by an annual 49% compared to 2013. This drop in sales is not only due to increased market competition but is also due to the sale of the Tyr plant in May 2013 and the sale of the Halba plant in March 2014.

The company highlighted that it focused on tending to local demand and therefore did not export any grey cement. In fact, all cement manufacturers affirmed that they have been focusing on local demand especially that access to export markets like Iraq and Syria is no longer available. However, HOLCIM imported clinker, which is cement before it goes in the grinding mill, in order to meet production needs and ensure product availability on the cement market.

<sup>1</sup> Market share calculated as sales in tons in percentage of total cement deliveries in tons

In 2014, the division and order of market shares remained identical to that of 2013. Cimenterie Nationale's market share remained the largest on the market at 41%<sup>2</sup> in 2014 while Ciment de Sibline's market share stood at 21% in 2014.

The low energy prices seen in 2014 did not greatly affect the costs of the Lebanese cement producers. According to market sources, the manufacturers of cement rely on steam coal and petroleum coke and the prices of these energy sources remained in a stable range throughout 2013-2014.

### The Concrete Market Tightly Linked to the Cement Market

The players on the concrete market, who purchase cement from the three companies operating in Lebanon, confirmed a downtrend in 2014. According to market sources, demand for concrete slumped by 15% in 2014. Concrete producers also used to benefit from substantial exports to Iraq and Syria before turmoil in the region blocked access routes. According to market sources, the public sector's share in terms of concrete demand stands around 17% leaving the big bulk of 83% to the private sector.

### Forward View for the Cement and Concrete Markets

Looking ahead, concrete producers have their eyes on tonnage laws that might affect their transportation costs. Market sources noted that if the allowed tonnage per truck is reduced, costs may suffer some upward pressure. As an illustrative example, if the allowed tonnage per truck is reduced from 40 tons to 20 tons, this would require transportation in two trucks instead of one. Given the congestion on Lebanese roads and their poor shape, delivery times will be extended and transportation costs will increase.

As for cement producers, they realize the large potential that lies on the Syrian market once the war comes to an end and reconstruction efforts are to be taken. However, cement producers nuance this opportunity by highlighting the fact that in order to provide war-free Syria with the necessary cement, they need to expand their plants substantially and that endeavor is a long-term plan of around 3-4 years.

Commenting on the first few months of 2015, cement producers confirmed an increased level of competition. This came about as the number of projects decreased and as slower construction activity is taking place on lands. More competition is compelling them to offer discounts of up to \$10 to \$12 on the price of one ton of grey cement. On a concluding note, cement producers reinforced the idea that political stability is a major condition for a better overall economic performance and for a better market performance in particular.

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