

The Lebanese Cement Industry Facing Low Domestic Demand and Fierce Competition Abroad



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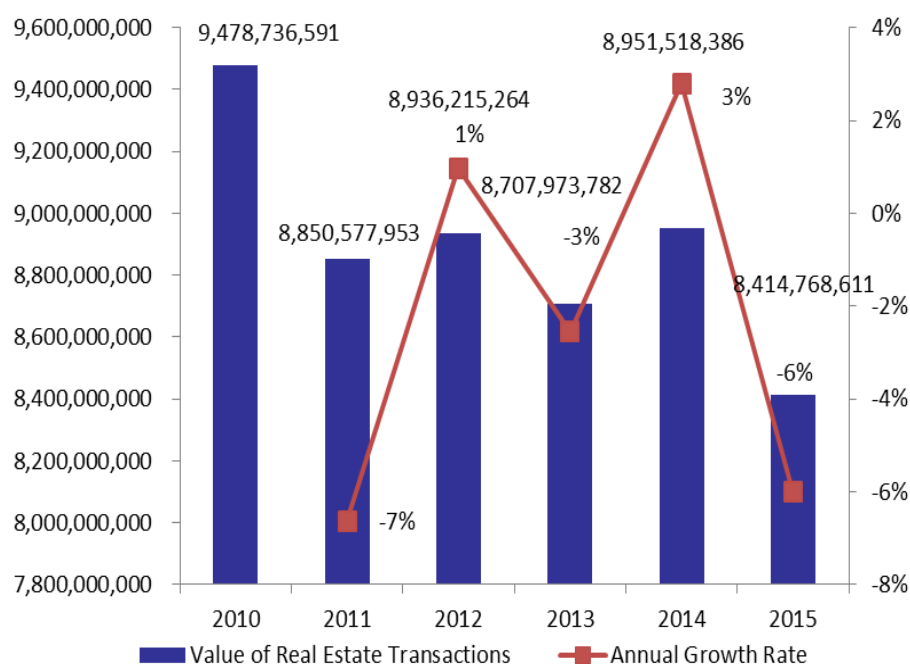
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The fate of the Lebanese cement industry is tightly linked to that of construction and real estate. However, construction and real estate activities have been receding since 2010 after the war erupted in neighboring Syria and after Lebanon was plagued with political instabilities and security issues. Foreign investments in real estate, usually a favorite of nationals from the oil-rich countries of the GCC, retracted. In 2015, players in the cement industry struggled more than ever with low demand and were unable to hedge by competing on markets abroad.

One would think that the internationally low energy costs would benefit energy-intensive industries in Lebanon such as cement. However, the drawbacks seen in the construction and real estate sectors in 2015 hindered the demand for cement. According to Cadastre, the value of real estate transactions reached \$8.41B in 2015 hitting its lowest level since 2010 and registering the second biggest yearly contraction of 6% since 2011.

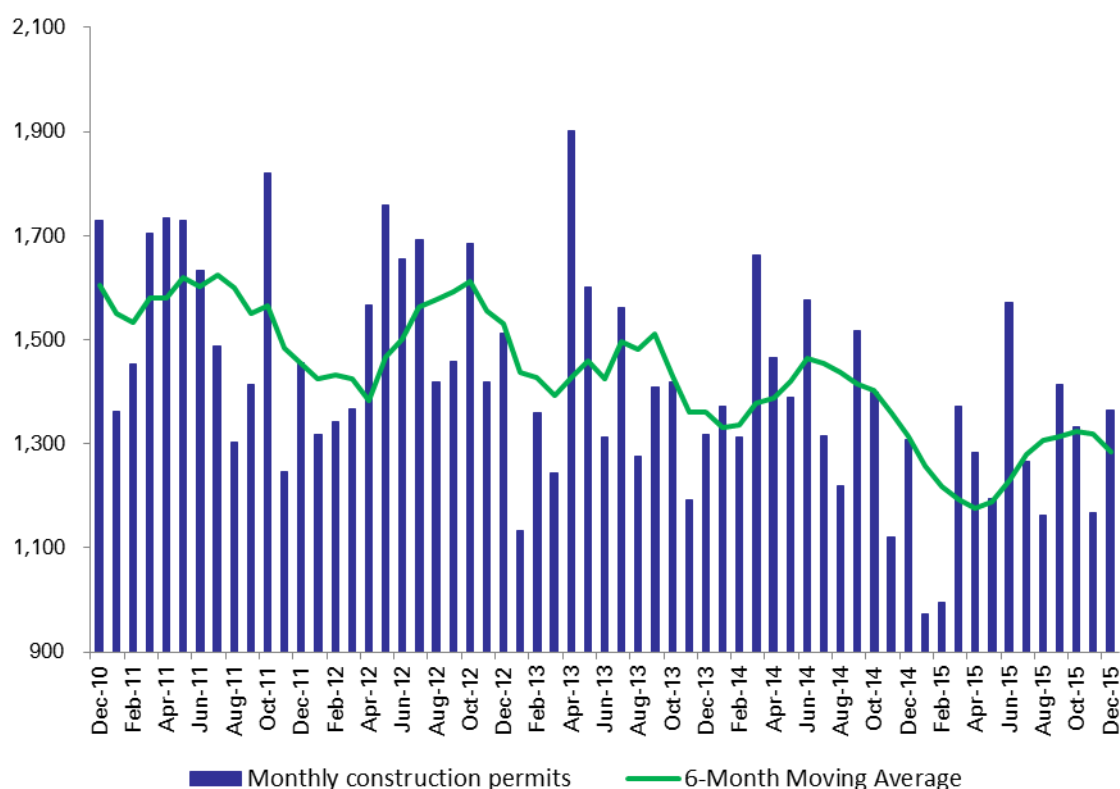
Value of Real Estate Transactions (In US Dollars)



Source: Cadastre

According to the Order of Engineers in Beirut and the North, construction activity also had a bad year in 2015 with a 9.43% yearly drop in the number of issued construction permits to 15,092. With the skyrocketing real estate prices during 2008-2010, large apartments became unaffordable for the great majority of Lebanese buyers. Only high net worth individuals in Lebanon, Arab investors and Lebanese expatriates had the capacity to buy into large apartments. Hence, the war that erupted in Syria and the political tensions in Lebanon and the region drove away big real estate spenders. Accordingly, demand for large apartments fell and compelled real estate developers to build smaller living spaces. Accordingly, the construction area authorized by permits (CAP) declined by a yearly 10.56% to 12.12M square meters (sqm) in 2015 compared to 13.55M sqm in 2014. As for the average area per transaction, it also fell from 812.92 sqm/permit in 2014, to 802.77 sqm/permit by the end of 2015.

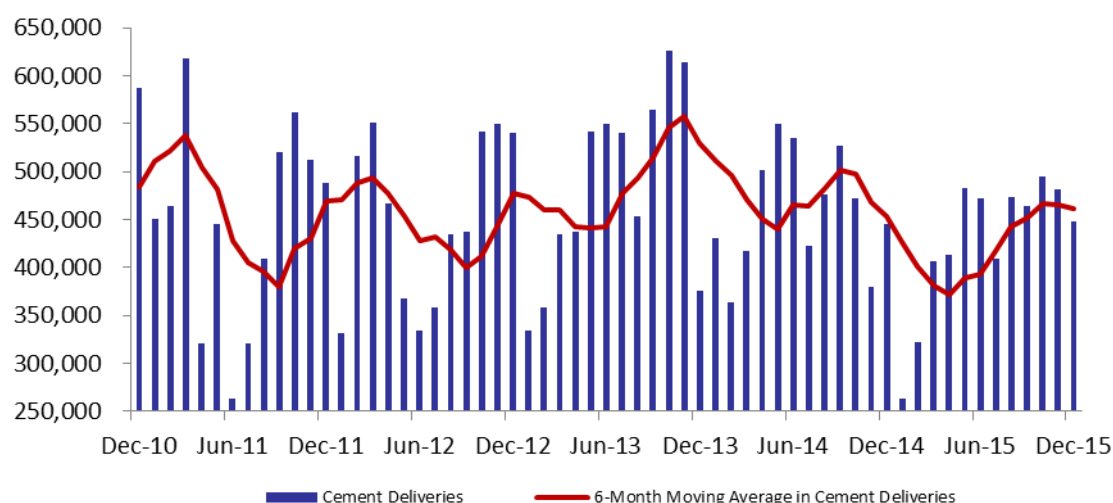
Monthly Number of Issued Construction Permits



Source: Orders of Engineers in Beirut and the North

With the contraction in the sectors of construction and real estate, cement deliveries fell to their lowest level since at least 2011. According to the Central Bank of Lebanon, cement deliveries totaled 5.13 million tons in 2015 compared to 5.52 million tons in 2014 and 5.83 million tons in 2013.

Monthly Cement Deliveries (In 000s of Tons)



Source: Central Bank of Lebanon

How Cement is made

The first step in making cement is the quarrying of limestone, clay and sand which contain calcium, silica, aluminum and iron, all essential elements for the production of cement. The main source of raw materials in Lebanon is the region of Chekka, but producers also import them from countries such as Greece and Cyprus. Once gathered, these materials are taken to the plant's laboratory where they are sorted in right proportions and then grinded into a finer form.

The raw materials then go through a preheater before going into the kiln, which is a hot furnace where the raw materials almost melt. Market sources affirmed that the Lebanese plants acquired this preheating feature almost ten years ago. The furnace has a cylindrical shape and carries a flame at its bottom end that is either powered by fuel, which is the case of Lebanese plants, or by powdered coal and natural gas. Market players confirmed that the drop in oil prices alleviated their energy costs in 2015; however they remain very secretive when it comes to releasing cost figures.

The high exposure to heat turns the raw materials into a semi-finished product called "clinker". Clinker is then cooled and grounded into a powder form; that grey powder is what is known as "Portland Cement". The cement is then either sold in bulk or put into bags to be delivered to construction sites.

Demand for cement on the Lebanese market has been subdued in 2015. According to market sources, 5.58 million tons of cement were produced in 2015 whereas only 5.13 million tons were actually delivered. The production of cement would have then seen a 10% annual drop in 2015. The gap between the quantity of produced cement and the quantity of delivered cement has been shrinking since 2012 but that not because of higher cement deliveries but rather because cement producers lowered their production to accommodate weaker demand.

Cimenterie Nationale (around 40% of the market) , one of the three Lebanese producers of grey cement alongside Ciments de Sibline (around 20% of the market) and HOLCIM (which also produces white cement and has a market share of around 40%), confirmed that 2015 was a rough year. Although sales stagnated at 2.2 million tons, Cimenterie Nationale reduced production by some 300,000 tons and turned off several kilns at their plant as they had accumulated a stock of clinker (semi-finished product) that needed to be liquidated. Cimenterie Nationale however noted that its two fellow producers Ciments de Sibline and HOLCIM did not face an issue of accumulating stock because they automatically adjust their production to demand. The sales of Ciments de Sibline reportedly varied little from 2014's 1.2 million tons while figures for HOLCIM's annual sales are not yet released.

In 2014 and 2015, the price of Lebanese grey cement delivered in bags to construction sites including VAT ranges between \$98 and \$104. However, the official price of cement when bought directly from the producer stands at \$85 + 10% VAT. Cement producers reported that when traders purchase the cement directly from them, they are sometimes compelled to charge them less since the low-demand environment incites traders to sell the cement at a lower market price.

Value of Cement Exports to Selected Countries (In Thousands of US Dollars)

	2012	2013	2014	2015
Syrian Arab Republic	31,892	4,753	1,952	2,484
Egypt		1,759	4,895	1,101
Cyprus	3,267	3,573	-	450
Congo	-	24	-	23
Greece	249	-	-	-
Spain	858	853	-	-
Italy	1,094	-	-	-
Lybia		4,099	-	-
Jordan		904	896	64
Total	37,378	17,439	7,817	4,147

Source: Lebanese Customs

Volume of Cement Exports to Selected Countries (In Net Tons)

	2012	2013	2014	2015
Syrian Arab Republic	403,118	57,050	20,424	23,575
Egypt	-	35,350	106,407	24,500
Cyprus	67,590	76,997	-	11,250
Congo	141	216	-	209
Greece	5,300	-	-	-
Spain	14,280	18,950	-	-
Italy	19,052	-	-	-
Lybia		58,350	-	-
Jordan		8,269	8,909	606
Total	509,488	285,205	136,333	60,185

Source: Lebanese Customs

The challenges faced by Lebanese cement producers are not only domestic ones but also international ones. The value of Lebanon's cement exports plummeted from \$37.38M in 2012 to \$4.15M in 2015. Cimenterie Nationale used to export to Syria and Iraq, however that exchange suffered after conflicts in the region disrupted trade routes. Nonetheless, figures from Lebanese customs show that cement exports to Syria still hold a sizeable but diminishing share in our exports which means that exports to Syria are still being led by other producers on the market.

According to Lebanese Customs, cement exports to Syria saw their value being slashed from \$31.89M in 2012 to \$2.48M in 2015. Moreover, the factory of Lafarge, which recently merged with HOLCIM, in Syria, was shut down indefinitely in September 2015 after it was seized by ISIS rebels. Cimenterie Nationale also reported that clinker and cement were both exported to Egypt and Spain but unfortunately Lebanese cement is being beat by the price-competitive Turkish products.

Lebanon exports cement to Egypt which is a high-potential market but that is challenging to penetrate. Cement exports to Egypt hold the second largest value in the total and have also been consistent since 2013. In 2015, cement exports to Egypt however fell from \$4.9M to \$1.10M.

The Egyptian market is a large and profitable market to access, especially as the country's Minister of Industry recently declared that the market's future needs are expected to reach 90.4 million tons in 2022, as mega projects are launched and as the Suez Canal Economic Zone is expanded. Egypt already holds 23 cement factories that produce an average of 72.5 million tons per year and the Ministry of Industry recently issued licenses for the establishment of 14 new cement factories. The recent devaluation of the Egyptian pound will also ease a dollar crunch for businesses operating in the country and will encourage new local and foreign investments in the cement sector. The expansion of the cement sector will increase the competition faced by Lebanese producers looking to sell for Egypt especially if the price competition is not in their favor.

In light of a weakened economy and tough competition abroad, the cement industry in Lebanon is in need of a boost. Subsidizing the industry might allow it to compete with international players until a recovery of the local economy is realized.

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