

Cement industry in for re-rating as big projects gain momentum

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PETALING JAYA: The local cement industry is in for a re-rating due to the increasing demand for the building material when the construction of mega projects gains momentum.

Although there might still be a supply overhang in the industry, an analyst with a regional brokerage said demand would surge when the construction of the RM30bil My Rapid Transit (MRT) project kicked off.

The four major industry players may see the construction sector lapping up what they could produce as not only are the big players clamouring for the raw material, the local developers and contractors are also looking for supply.

The industry is dominated by Cement Industries of Malaysia Bhd (CIMA), Lafarge Malayan Cement Bhd, YTL Cement Bhd and Tasek Corp Bhd – commanding 96% of the market share.

"We may not see a sudden surge in demand, but a steady climb in demand will see cement producers going on overdrive. Having said that, planned new capacity of these companies would still be supportive of demand," he said.

Last year the industry players were only running at an installed capacity utilisation rate of 75% to 85%, and generally, cement cost makes up between 50% and 60% of concrete products.

Combined, the cement industry is capable of churning out 24.7 million tonnes of cement

Cement output of major players

	(Tonnes per year)		
	Clinker capacity	Cement capacity	Market share (%)
CIMA	2.8mil	3.6mil	17
Lafarge	8.6mil	12.4mil	40
YTL	4.5mil	6.2mil	29
Tasek	2.4mil	2.5mil	10



annually, while producing another 18.3 million tonnes of clinker per year.

"The price of cement is between RM280 and RM290 per tonne, and the companies are still facing stiff price competition with each other. Supply and demand would likely dictate the price direction in the future," he pointed out.

"Not only would the MRT be a catalyst, other projects that are in the works include the Iskandar development region, the Northern Corridor Economic Region, and also the East Coast Economic Region.

"With the Government pushing through with developments to ensure the next phase

of economic growth, the first few sectors that would benefit are the building material industries like steel, cement, and polymer products," he said.

According to historical reports, the construction of the North-South Expressway in the late 1980s benefited the construction sector and its supporting industries.

Demand for cement jumped 42% between 1987 and 1989, backed by a corresponding 21% growth in construction volume, with the then RM8bil project resulting in 20% higher employment from 1987 to 1990.

The analyst said several other projects in need of substantial supply of cement were the

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– AN ANALYST

Light Railway Transit extension and the West Coast Expressway.

There is some softening in demand from the property sector, and the increased activity seen in the infrastructure would partially offset the demand gap from the residential sector.

However, investors seeking an exposure in the cement industry has two options, namely Lafarge and Tasek which are still active for trading.

CIMA had been privatised several years ago by parent UEM Group Bhd, and YTL Cement is undergoing a de-listing process after parent YTL Corp Bhd made a RM1.06bil offer in December to buy out YTL Cement through a share swap.

Last year, Lafarge raked in RM317mil on a revenue of RM2.55bil, YTL Cement made RM167.9mil from a revenue of RM1.1bil, and Tasek profited RM103mil from RM566mil in revenue.

The latest records of CIMA in 2010 showed that it had generated RM140mil in pre-tax profit on revenue of RM994mil.