AFRICAN CEMENT

Serious turmoil
Great opportunity?

WCA Shanghai
Tony Hadley 2019

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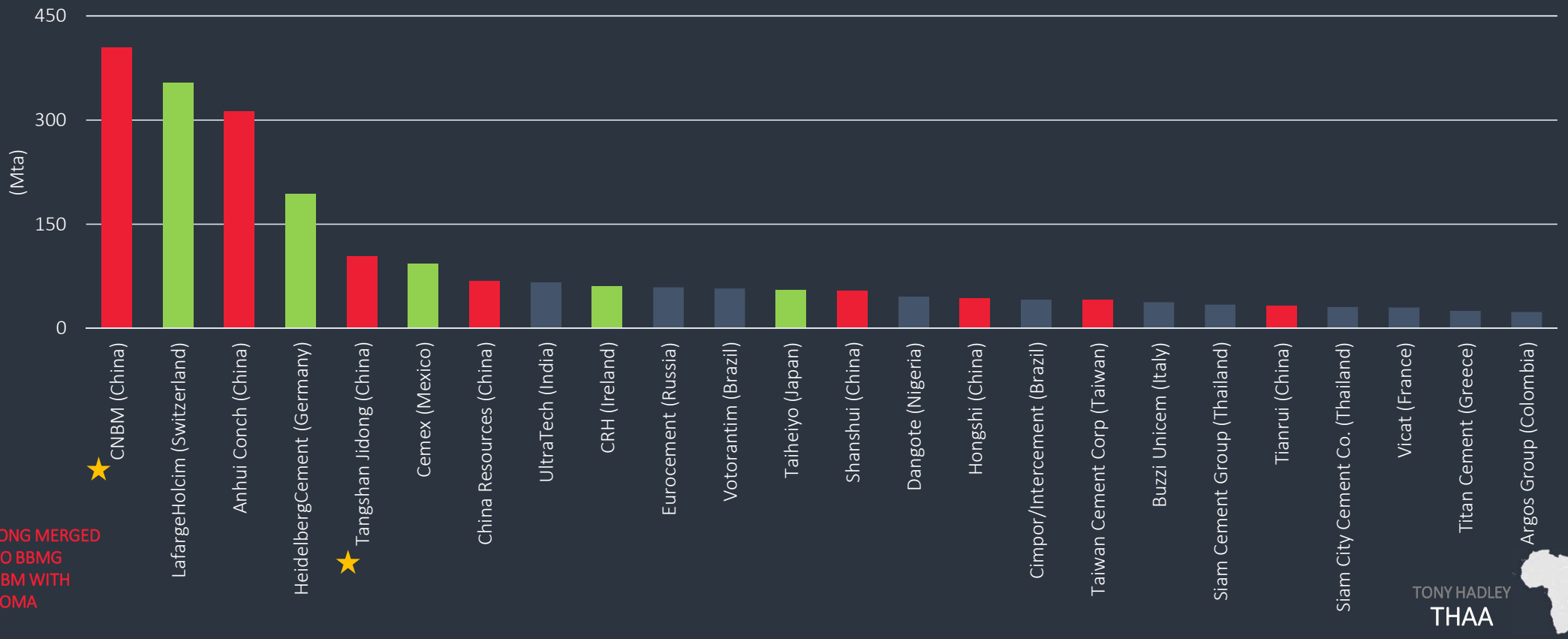
A Macro Snapshot

Leading Cement Companies Incl. China

China:
Consolidation, profit growth
Environmental performance

DM:
Divergence in strategy
CO2 price to balloon

EM:
Excess capacity
Lack of Market structure



★ JIDONG MERGED INTO BBMG
CNBM WITH SINOMA

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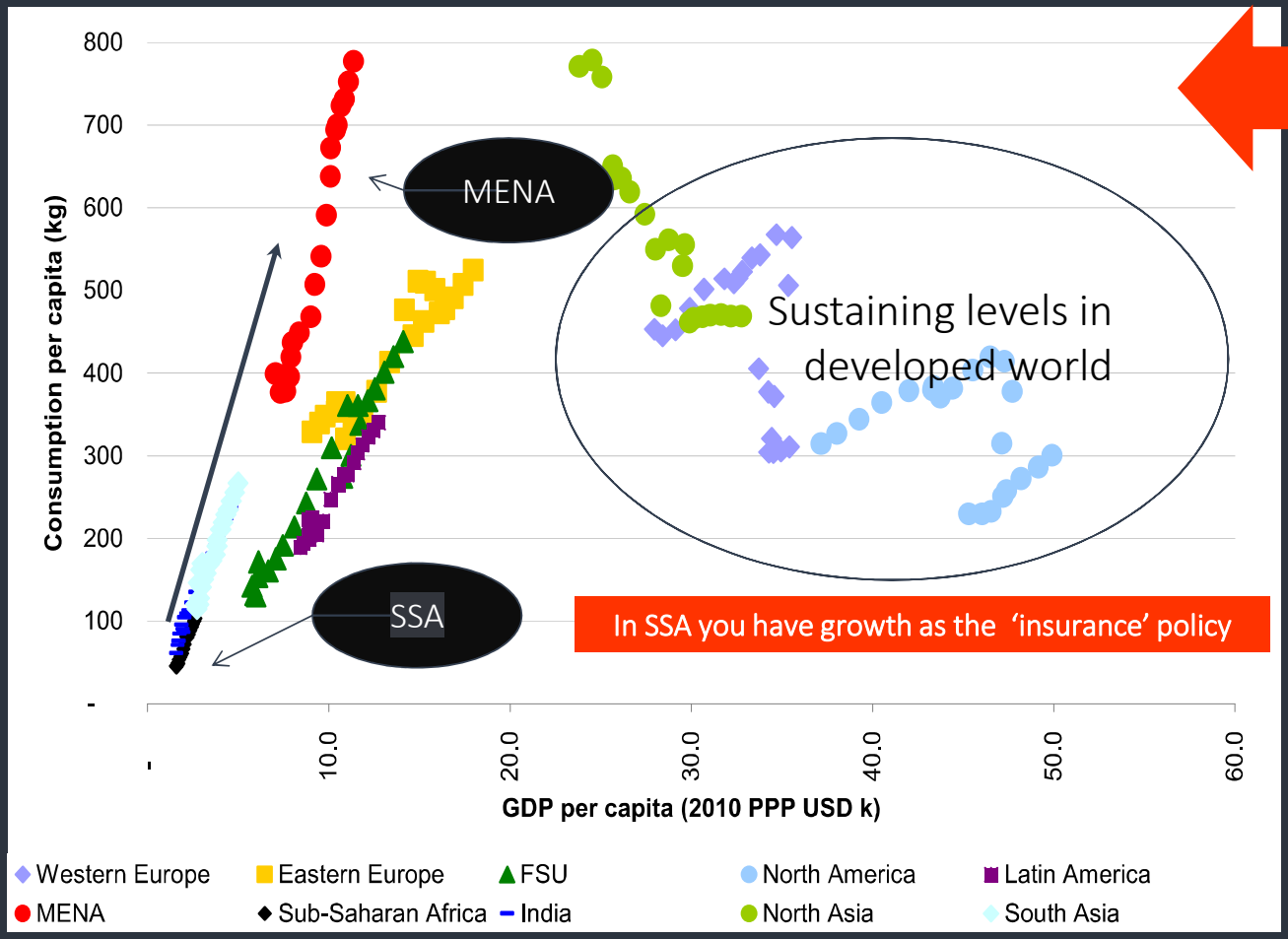
Why Invest In African Cement?



20 year progression of cement consumption – each dot per region represents a year

+VE

- Population growth
- Megacities
- Urbanisation
- Middle class development
- Housing & Infrastructure need
- Relative ease of permitting

-VE

- Lack of equity
- Cost of debt
- Poor infrastructure
- Depth of skills
- Strategic rigour
- Performance culture still to develop
- Volatility

Source: Industry and National sources, Global Cement Report, IMF, Morgan Stanley Research

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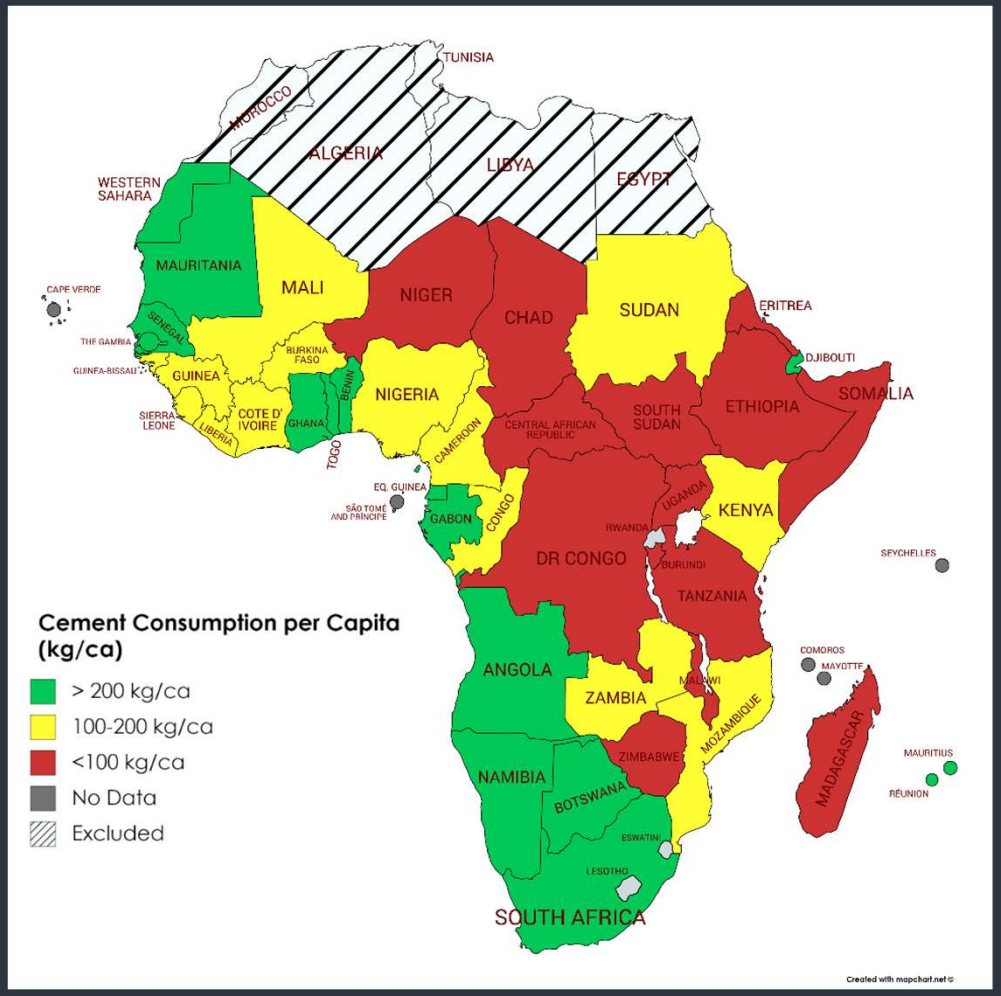
Sub-Saharan African Demand?



SSA population ~ 1.04Bn
Total consumption 2019 f ~ 116mt
Consumption Kg per capita ~ 112

Top 10 SSA Countries Sales Volume
~81MT - 70% of 116MTPA

Nigeria 20 MT
South Africa 14 MT
> 4 <10 MT: Ethiopia, Ghana, Kenya, Tanzania, Sudan, Angola, Ivory Coast, Senegal,

Still low consumption Kg per capita

DRC 23
Cameroon 100
Kenya 120 / Uganda 60
Nigeria 105
Zambia 95
South Africa 245

Source: THAA research

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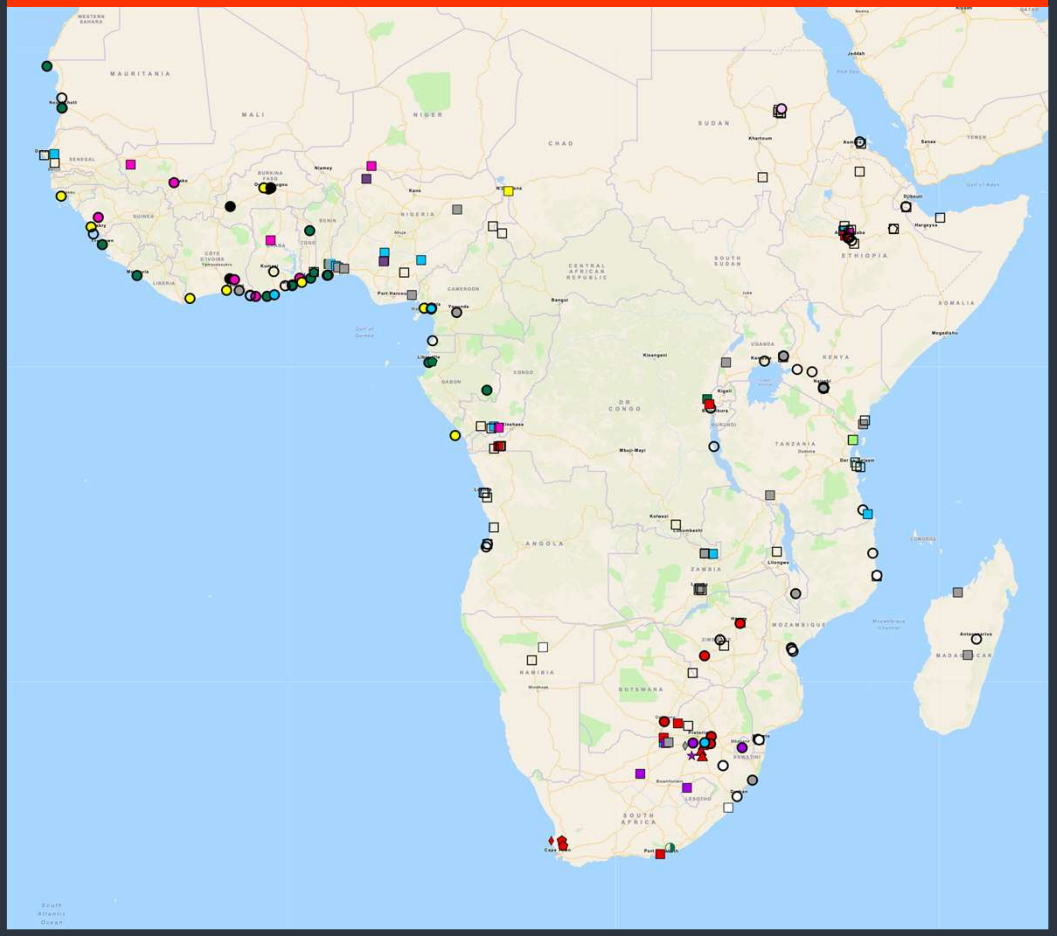
Integrated plants & Grinding station



What does the SSA market look like?

~109 Clinker or integrated plants (IP), of which:
None with kiln capacity greater than ~6,500 tpd,
19 >5,000<6,500 tpd **45** >2,500<5,000 tpd
Rest sub-economic or small in niche market

>228ktpa of cement grinding capacity
97 Grinding plants of which only **21** > 1mtpa

Biggest plant Obajana 13.2mtpa cement capacity

10 SSA Countries with little or no limestone

Source: THAA research

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Recent investment trends

Lack of strategic rational and rigour
Poor leadership, poor management
Irrational investments and investors
Cement / clinker over-capacity, poor market structure

BUT

MENA
you're far too late

SSA
now is time to invest

Too many players:
-ve margins
No price stability / weak pricing
Slow to reduce costs
Stretched balance sheets
Excessive interest rates on debt

Turmoil:
Price wars
Failure to service Debt
Desperation
Cheating on cement quality
Not paying taxes
Poor industrial performance
Bankruptcy

Source: THAA research

Lets focus on turmoil: price wars

The Catalysts

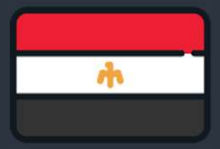
- New competition:
  - Before its in: kill it / buy it / delay it
  - Once its in its too late and too costly to' kill'
  - Cede market share without price tension
  - If competition is good they'll make money, if not they'll destroy themselves

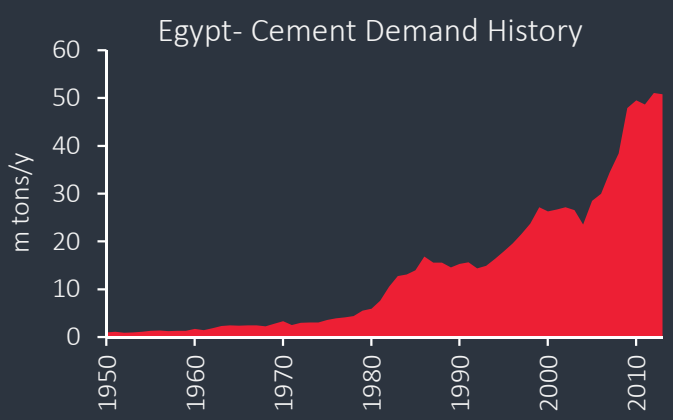
- Other issues: Ego's, market share grabs, imbalances, government, emotions, blame, desperation, not knowing one numbers, lack of respect for ZNA's

What we must manage

- Volume over price economics (typically can lose twice volume vs. price)
- Define ZNA's (Natural Markets), run proper DCA (delivered cost analysis)
- Understand product Margin Differentials
- Ensure of control of cementitious
- Address power Buyers
- Carefully manage discounts & rebates, manage leakages
- Understand desperation for cash and other very bad ideas

Egypt Overview – why avoid MENA: *lessons from HC / LH*?

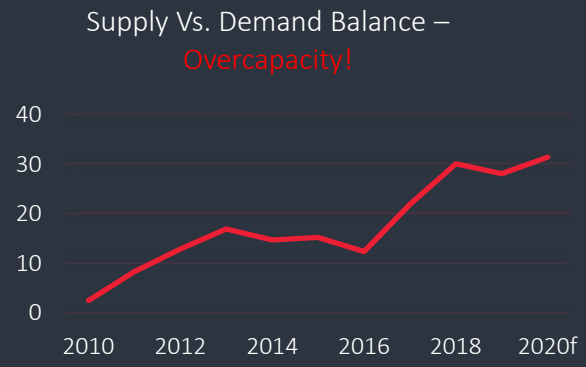


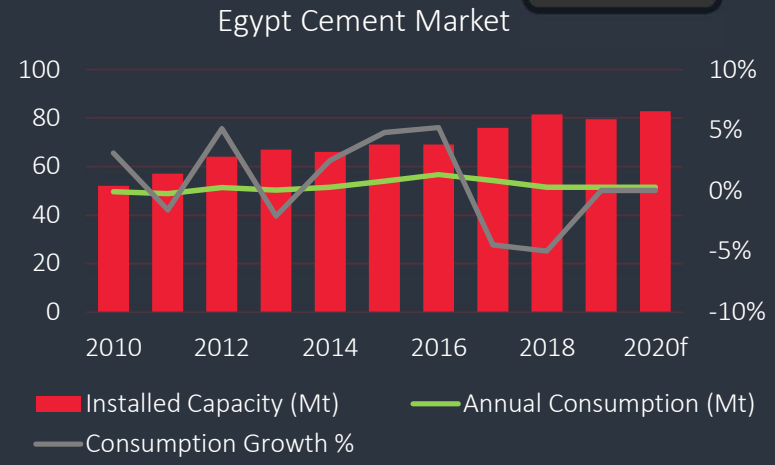


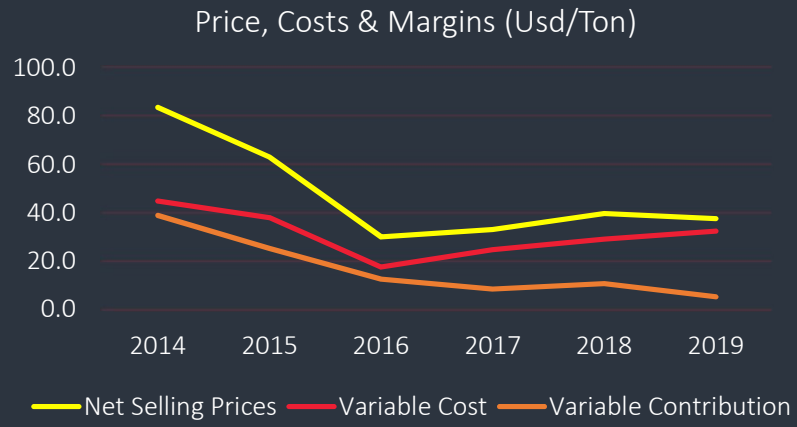
Period	tons Incr.	Worst year	Best year	Kg / Cap.
1971-80	+134%	-24.5%	+25%	133
1981-90	+101%	-7.5%	+38%	266
1991-2000	+68%	-8%	+14%	375
2001-10	+86%	-3%	+15%	634

Egyptian military: Sinoma built
6 lines: 12mtpa IP.

Why?







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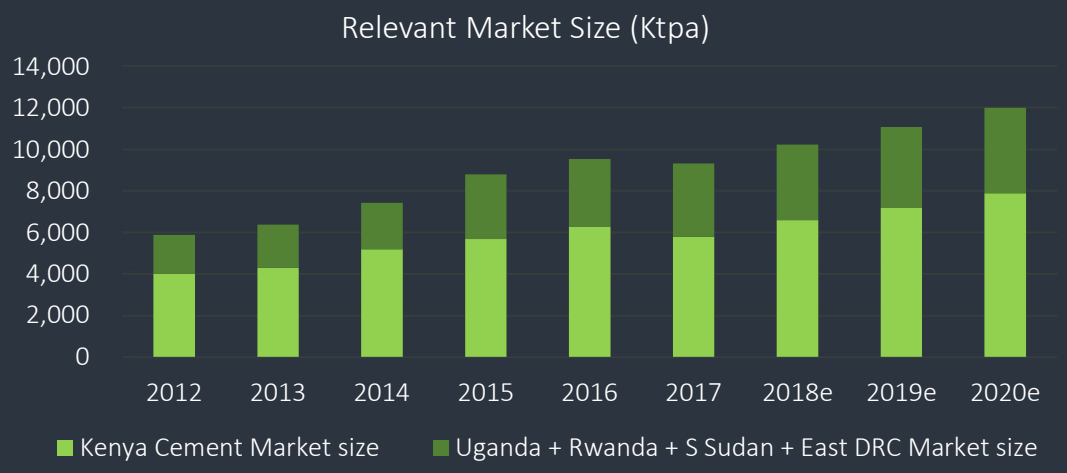
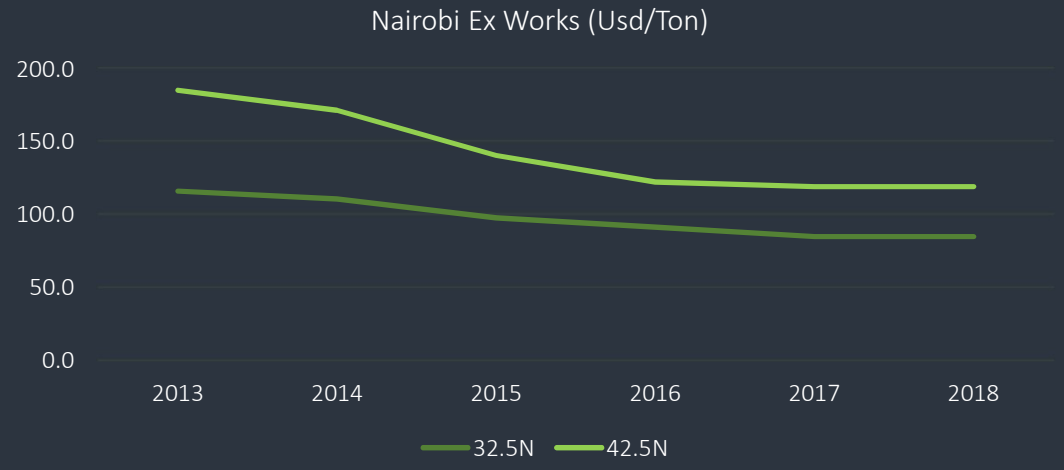
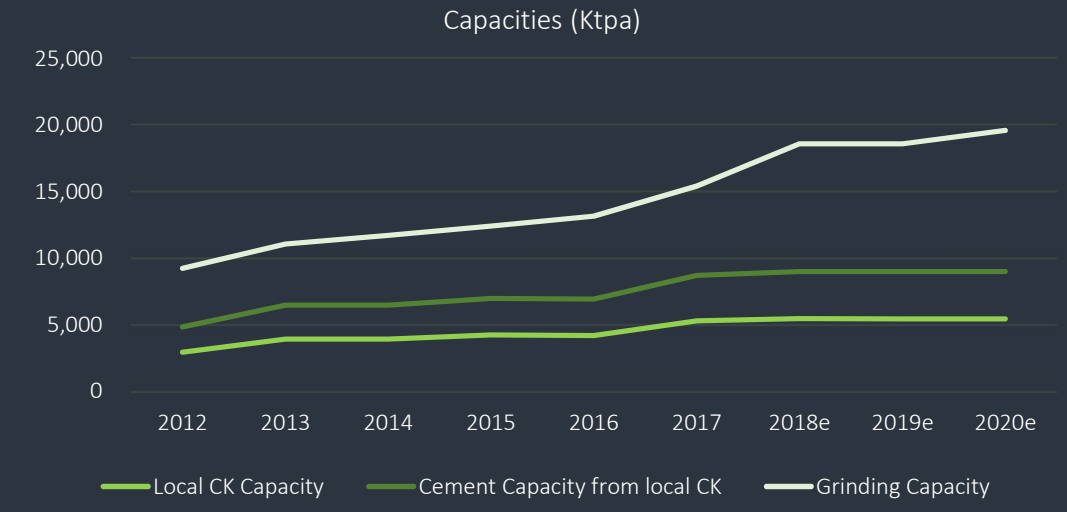
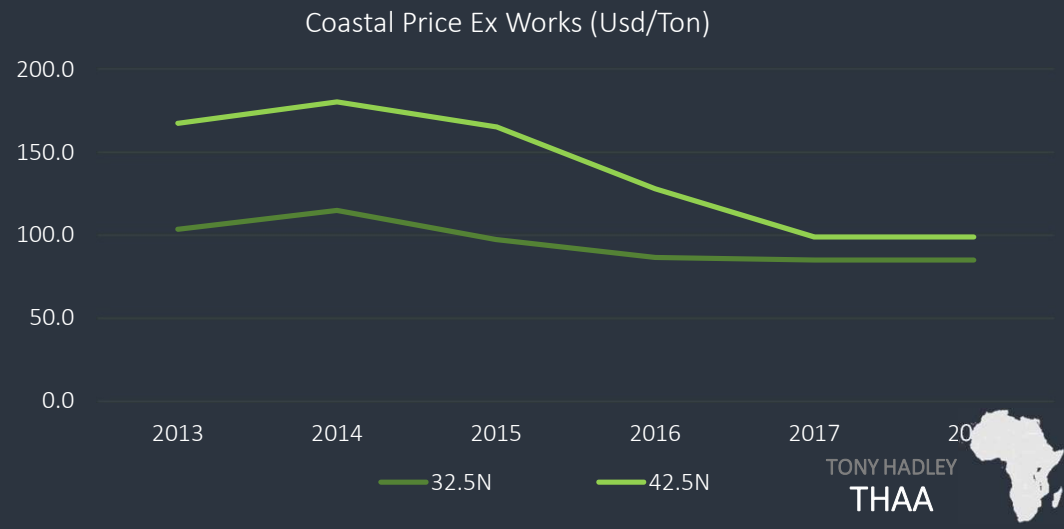
Cement East Africa

~4 mtpa of CK import









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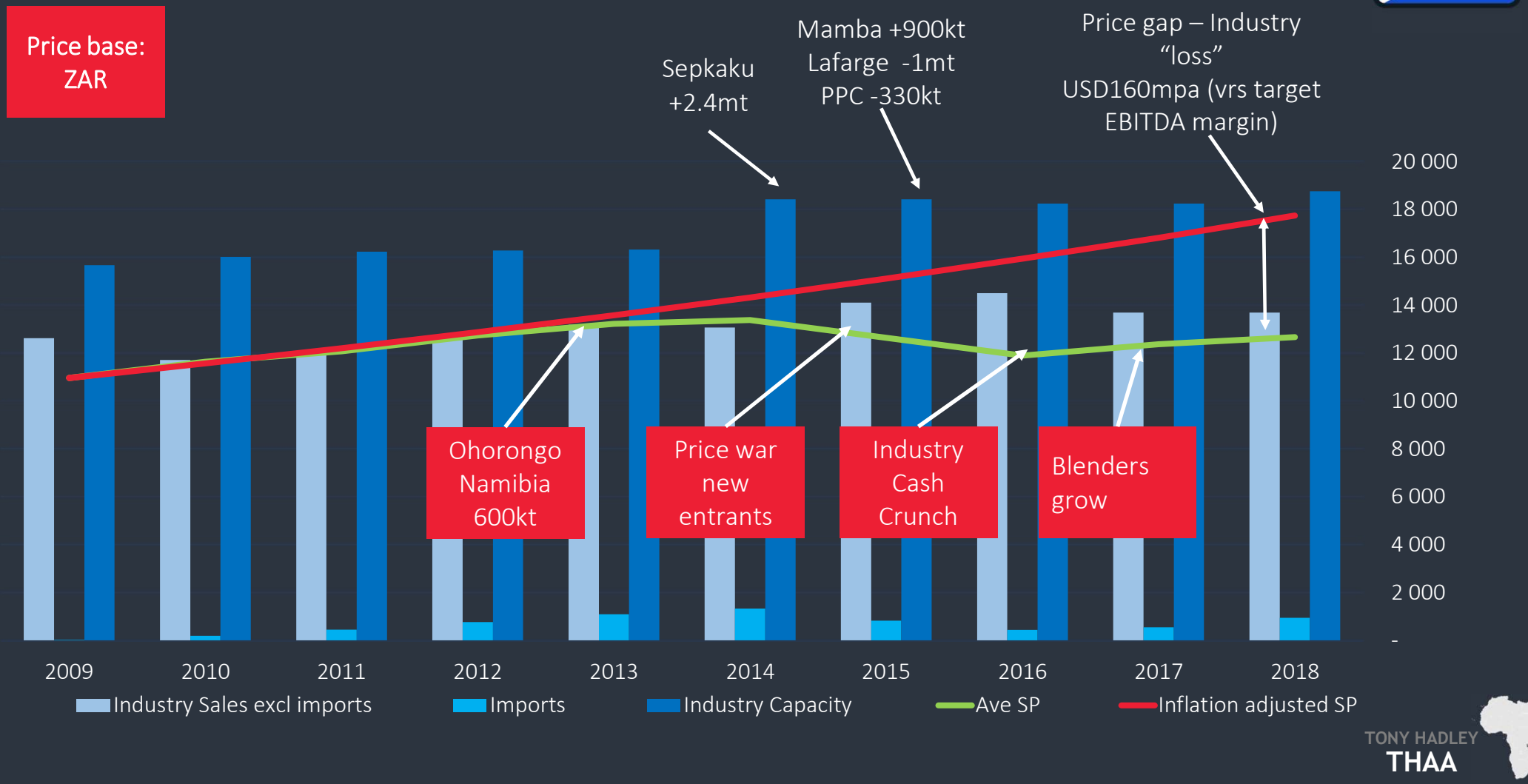
South Africa Market Dynamics: Selling Price / Supply & Demand



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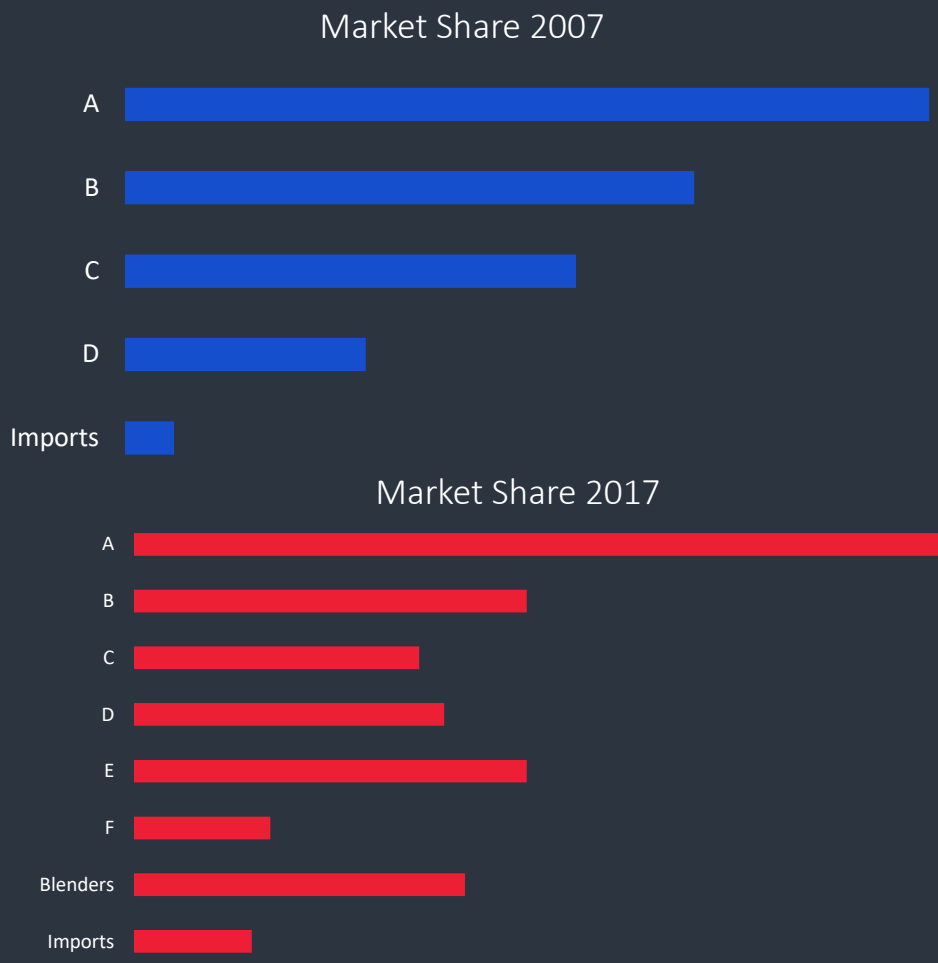
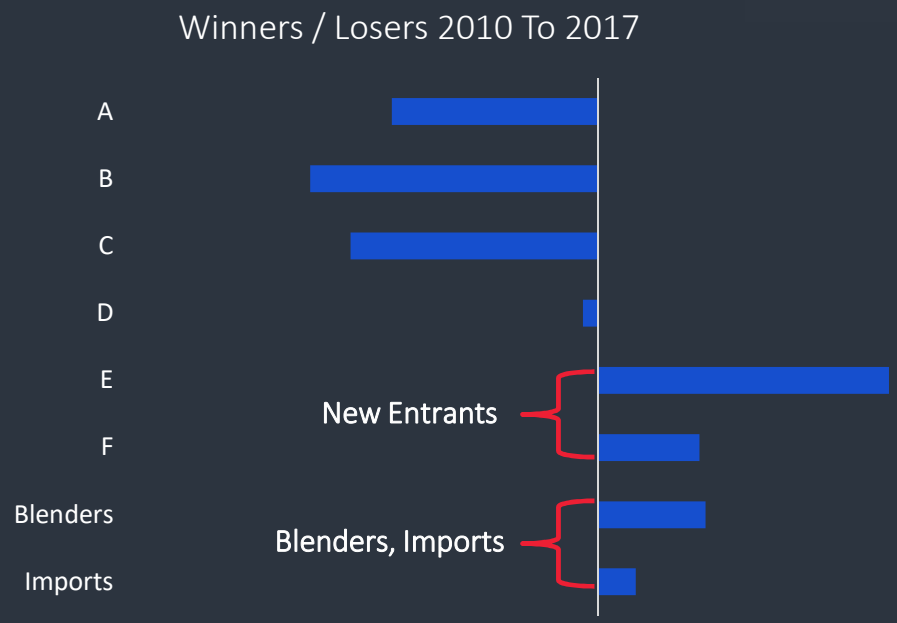
New Entrants Impact 2007-17





- Market stagnant (~14mT)
- Capacity growth +27%
- New Players / Price for Volume
- Challenge to restore pricing
- Failure to control cementitious, ban imports

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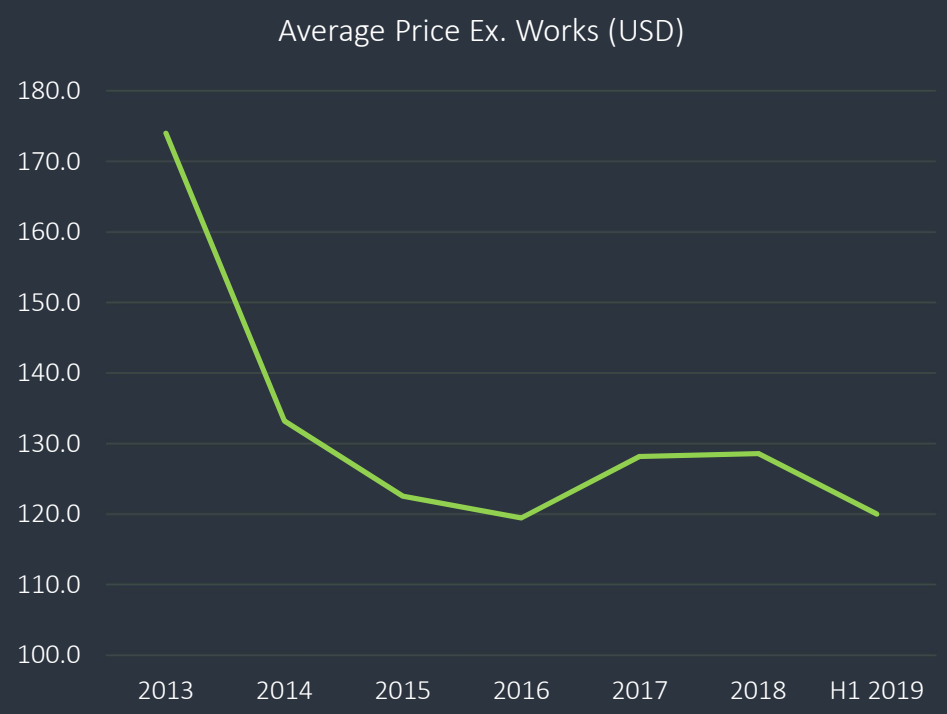
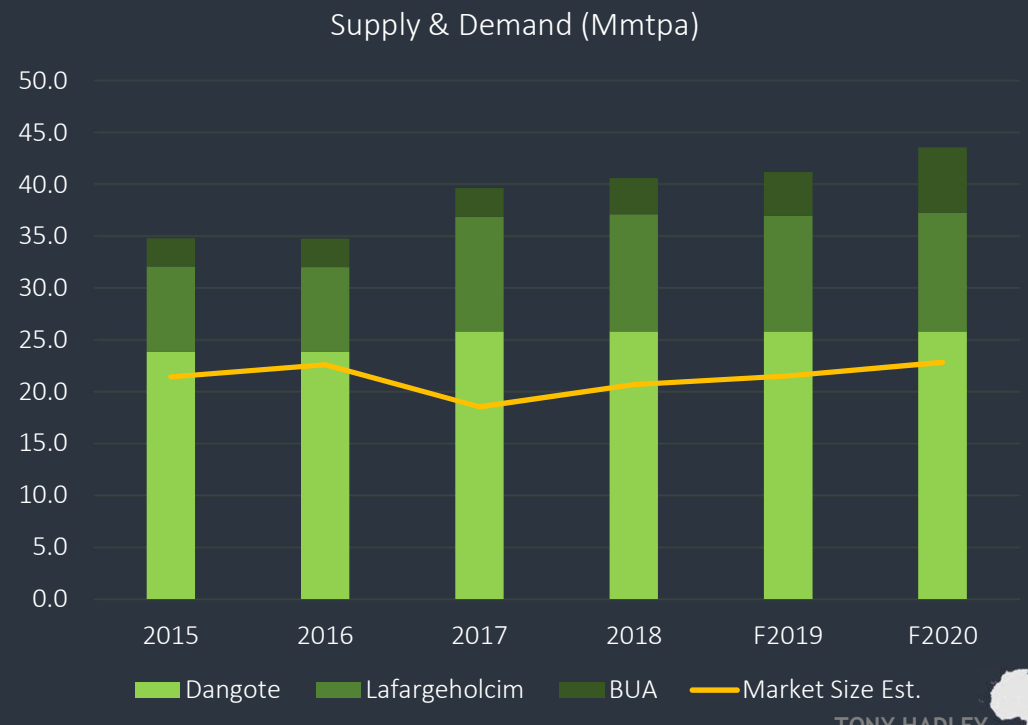
Price Wars Nigeria?

- Supply demand imbalance
- Utilization Differentials (DG ~ 50% UF)
- Dangote Refinery Cash Demands
- BUA additional capacity pushing volumes
- Largest player takes the pain (MS loss)





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Turmoil Mostly Internal Factors

- A lack of strategic vision and industrial leadership:
- Parent Company failures
- Over paying for assets
- Lack of operational excellence (performance)
- Capacity getting ahead of demand, deconsolidation
- New Greenfields ramping up too fast and crashing prices
- Excess & mismatched debt

WHAT'S NEXT ?

- Nigeria – only a matter of time before a real price war?
- Ivory Coast, BF, Ghana price war coming
- Will LH stay in Africa (as LH)
- Improving leadership and vision
- Distress driven consolidation
- The best will win

Q&A

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