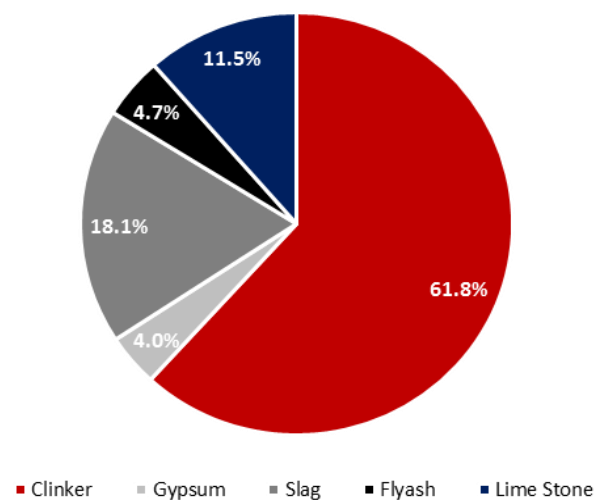


Commodity Price Decline– Impact on Cement Sector

Cement is mostly a grinded mixture of clinker, gypsum, slag, fly ash and limestone. Among these, clinker comprises major part, roughly 60.0-70.0% of the total materials used. The remaining portion is comprised of slag, limestone, fly ash and gypsum with roughly 20.0%, 12.0%, 5.0% and 4.0% contribution, respectively.

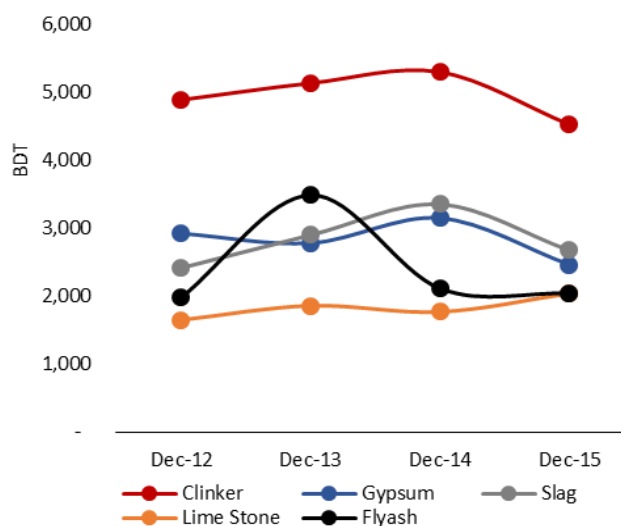
- In 2015 market saw a price correction for most of the raw materials of Cement. Clinker, the major raw material, faced 14.6% slump by the end of 2015 from that of 2014. Among other raw materials, slag, gypsum and fly ash prices dropped by 20.2%, 21.7% and 3.4%, respectively in 2015. Conversely, price of limestone hiked by 15.3%.

% of Raw Materials Use in Cement



Source : Annual Report of HEIDELBCEM ; Research, IDLCIL

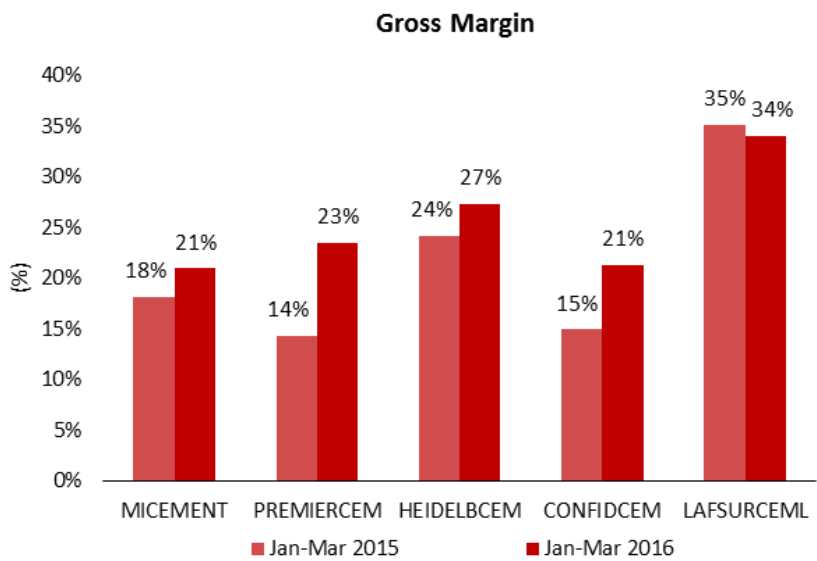
Raw Materials Price Change



Source : Annual Report of MICEMENT; Research, IDLCIL

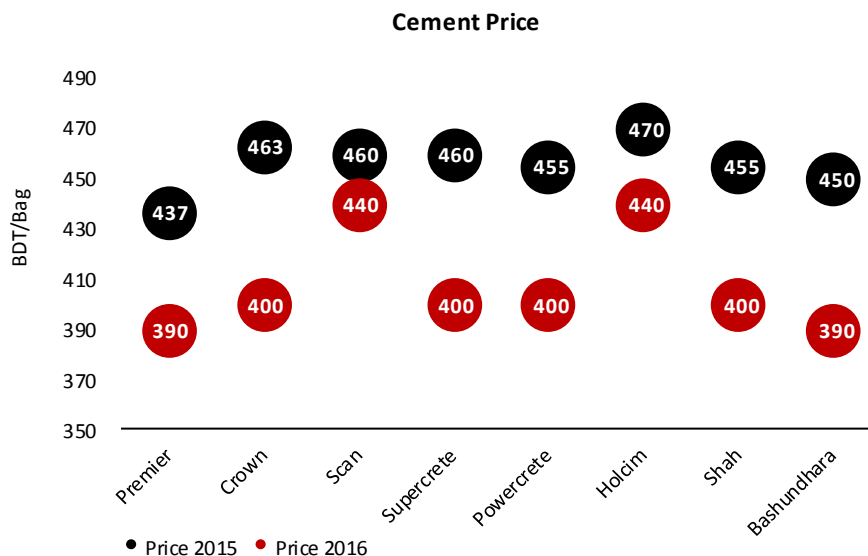
Since most of the cement companies of Bangladesh rely on imported clinker, their gross margin swings depending on the global price movement of this core ingredient. As all the companies disclosed financial performance for the period of January-March 2016, the impact of the global declining price trend of clinker has been observed:

- Accordingly, PREMIERCEM, CONFIDCEM, HEIDELBCEM and MICEMENT locked the benefit of the lower clinker price globally as their gross margin expanded by 9.2%, 6.4%, 3.1% and 2.8% points respectively in January-March 2016 than that of same period of 2015.
- On the other hand, LAFSURCEM’s gross margin moved in opposite direction as it contracted by 1.0% point January-March 2016 over the same period of 2015. Lafarge is the only company in Bangladesh with fully integrated dry process cement plant where it produces both clinker and cement. Around 19.3% of its revenue comes from clinker sale. The global price reduction of clinker forced it to cut its clinker price, ultimately narrowing its revenue segment as well as gross margin.



Source : Quarterly Statements of respective companies; Research, IDLCIL

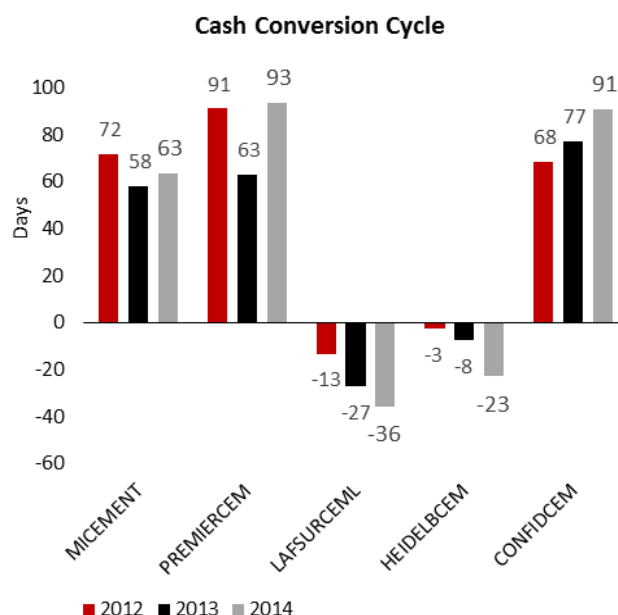
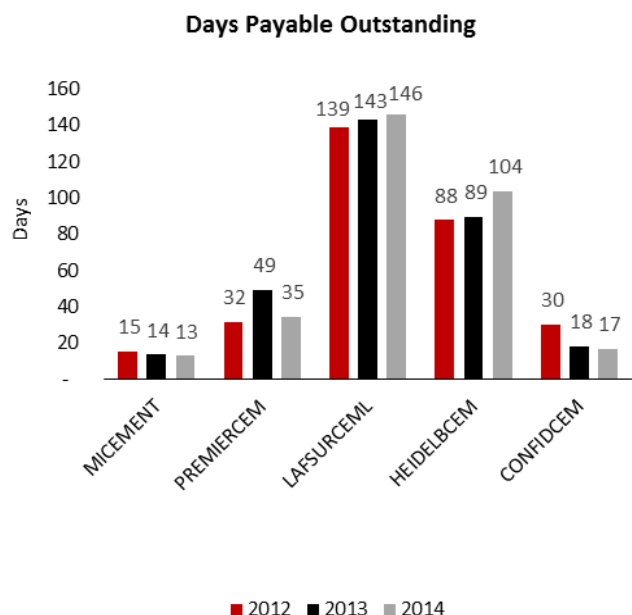
- However, to revive the slow local demand, cement manufacturers passed on the partial commodity price benefit to the end users and market saw roughly 11.0% cement price correction over the last one year. Price of most of the brands came down below BDT 400.0 per bag, except for Holcim and Scan.



Source : Primary Data Collection; Research, IDLCIL



- Among the cement companies LAFSURCEML and HEIDELBCEM have the most efficient Cash Conversion Cycle (CCC) with -36 days and -23 days, respectively during 2014. This improved CCC resulted from better credit facility from the suppliers.



Cement companies at a glance (2014):

Company	Installed Capacity (MT)	Capacity Utilization	Gross Margin	EBIT Margin	NPAT Margin	Annualized P/E ¹	TTM P/E
MICEMENT	1,740,000.0	68.6%	15.8%	11.7%	8.4%	15.2	16.1
PREMIERCEM	2,700,000.0	41.0%	17.2%	14.7%	6.8%	18.0	14.2
HEIDELBCEM	2,378,000.0	64.1%	19.2%	12.4%	11.2%	13.0	20.2
CONFIDCEM	750,000.0	65.7%	16.7%	12.2%	6.6%	12.2	12.2
LAFSURCEML	2,350,000.0	117.9%	38.6%	32.6%	24.3%	33.9	30.7

¹Annualized P/E based on recent quarter

Analyst’s Observations:

- Though some companies benefited from the global price decline of the major raw material clinker, LAFSURCEML had a counteracting experience as a portion of its revenue comes from clinker sale. Resultantly, its gross margin shrank due to reduced revenue from clinker.
- Multinational cement companies like LAFSURCEML and HEIDELBCEM have better cash conversion cycles than that of the local ones. It indicates their better cash management strategy, especially through better credit terms from suppliers. Moreover, if companies shift to direct sales to customers for instant cash payment, it is expected to smoothen the cash collection process even more.
- Finally, the sustainability of the gross margin benefit till the end of 2016 is hard to predict due to the uncertainty of global commodity price trend. However, we can expect the cement demand to boost up as big infrastructural projects are in the pipeline e.g. Padma Bridge, Rampal Thermal Power Plant, Ruppur Nuclear Power Plant, Metro Rail, Deep-Sea Port at Sonadia and Liquefied Natural Gas Terminal etc.



IDLC Investments Limited
D R Tower (4th Floor)
65/2/2 Bir Protik Gazi Golam Dostogir Road
Purana Paltan, Dhaka- 1000.

www.idlc.com

Disclaimer: This document has been prepared on the basis of publicly available information, internally developed data of IDLC Investments Limited and other sources believed to be reliable. This document is only for internal use and consumption of IDLC Investments Limited, strictly confidential and shall not be referred to anywhere as of reference. Use of this document by a person other than IDLC Investments Limited for their own benefit and interest is unauthorized and the person shall solely bear the adverse consequences if arise. Any claim or demand by any person on the basis of this document shall be rejected by IDLC Investments Limited and/or court of law.
