Mozambique market expansion

by ICR Research

The Mozambique cement market holds much development potential underpinned by projects for the rehabilitation of public infrastructure and private investment in real estate, sea ports and mineral exploration activities. Portuguese producer Cimpor is the dominant player in the local sector and is presently undertaking capacity increases as it aims to meet challenges and opportunites in this emerging market. However, with the government keen to attract new investment, competition is set to increase.

The Mozambique economy continued to perform well in 2010 growing at 6.5 per cent, above the average for sub-Saharan Africa of 5.9 per cent. High global food and fuel prices caused the 2010 growth figure to come in slightly below expectations. Inflation was considerably higher than expected last year with the average inflation rate at 12.7 per cent, while the national currency, the metical (MZN), depreciated over the year by 19 per cent against the US dollar.

However, YoY inflation has been slowing since December, mainly due to the strength of the metical. As at the end of May 2011, it had gained more than 25 per cent against the dollar since August. Inflation slowed to 12.77 per cent YoY in April from 13.78 per cent in March and 15.23 per cent in February. Therefore, the government's revised target of average annual inflation for 2011 from eight per cent to 9.5 per cent appears more achievable.

Steady rises in cement consumption and production are expected over the next two years in this resource-rich, southern African country

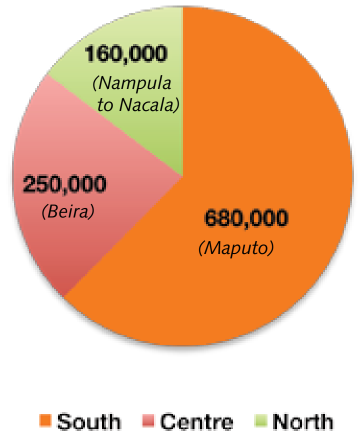
Last year, Cimpor – Mozambique's main producer – managed to achieve its highest local sales to-date due to increased imports and additional grinding capacity

Thanks to a strong performance in farming, mining and banking, and a revised budget that increases spending on food subsidies, Mozambique has raised its 2011 growth forecast from 7.2 per cent to 7.4 per cent. "This is due to better-than-expected performance in several sectors of the economy, including agriculture, mining, financial services, construction, and transport and communications," Prime Minister Aires Aly recently noted.

Mozambique possesses a varied but largely untapped mineral resource base which includes coal, natural gas, rare metal minerals, gold and titanium, together with non-metallic minerals such as marble and gemstones. These reserves are attracting huge foreign investment and, for example, new player Beacon Hill, recently paid US$42m for the assets of US company Global Mineral and Metals in Moatize, Tete province, which has estimated coal reserves of 450Mt. In April, another British company, Pan African Resources, was awarded a gold mining license in Manica, which is the historical gold mining centre of Mozambique.

Acknowledging the impact of such investments, the International Monetary Fund (IMF) is forecasting GDP growth of 7.2 per cent for this year. "We expect growth to accelerate to around 7.2 per cent in 2011 and we also expect inflation to continue to decline towards a single-digit, at a medium of 9.5 per cent by the end of the year."

Figure 1: 2010 breakdown of Mozambique consumption by region (tonnes). Main consumption hub for each region shown in brackets



Source: Cimpor industry presentation (March 2011)

Construction activity

The construction sector contributed strongly to Mozambique's positive economic performance growth in 2010, registering 18 per cent in the first two quarters and 12 per cent in the third quarter.

Since its civil war ended in 1992, the government, in partnership with international business and aid groups, has been investing in the development of Mozambique's generally inadequate public infrastructure, especially in the many areas heavily affected by the war. Close to 50 per cent of government spending comes from foreign aid and billions of dollars have been spent to build and repair roads, enlarge harbours and rehabilitate railways. However, natural disasters have slowed post-civil war reconstruction. The 2000 and 2001 floods affected about a quarter of the population and destroyed much of its infrastructure. Furthermore, in 2002 a severe drought hit many central and southern parts of the country, including previously flood-stricken areas.

The government has continued to implement its poverty reduction strategy with a focus on improving infrastructure. One of the latest significant investments is the Nacala international airport, Nampula province, which is the result of converting a previous military airbase. Construction is in the hands of Brazilian company Odebrecht and the airport is due to be ready at the beginning of 2012. "The project is the most recent of several public airport infrastructure investments including the reconfiguration of Maputo international airport and the international airports in Pemba and Vilanculos, the latter two being important centres for the tourism industry," a recent report by the Economist Intelligence Unit (EIU) highlighted.

Transport infrastructure remains fairly basic and in April this year, the World Bank Board of Executive Directors approved an International Development Association (IDA) credit equivalent to US$41m in additional financing to support the implementation of the government's Roads and Bridges Management and Maintenance Program. The IDA credit supplements the initial IDA funding of US$100m which covered the period 2007-11. This second phase of the project is supporting improved access of the population to all-season roads through maintenance, rehabilitation and upgrading of the classified road network. Mozambique's classified road network consists of 29,349km of roads, of which 5814km (or just under 20 per cent) are paved. "This project has been supporting the implementation of the government's own road strategy by helping to close the financing gap which previously had delayed the needed expansion and maintenance of the road network. It is essential to improve efficiency in the management and maintenance of the road network because failing to do so will increase future rehabilitation and upgrading costs," according to Young Kim, World Bank's acting country manager for Mozambique.

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In terms of housing, the Mozambican government announced plans in March to build 100,000 social houses by 2014. The government will also provide 300,000 plots of land to sustainable communities. The minister noted that preparation of a plan of action was to be concluded soon, outlining the budget and mechanisms to allow citizens easier access to housing. Sources of domestic funding have been identified involving the banking sector, which is expected to focus on young people, state workers, and armed forces workers with conditions to access funding packages.

Cement consumption gains

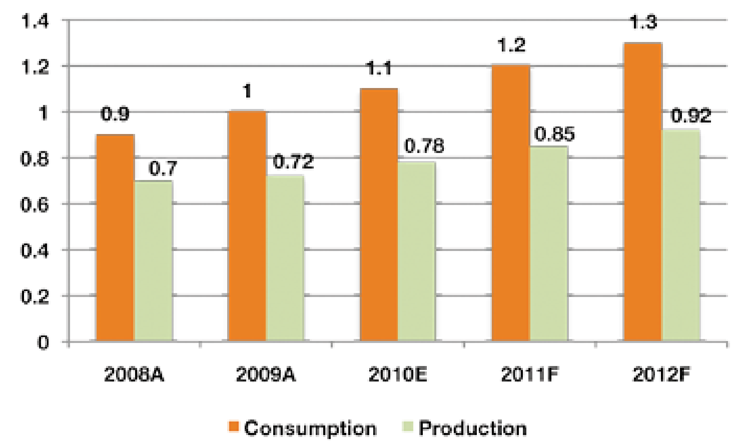
Domestic cement consumption growth has been steady over the past few years and continual gains are forecast in the medium term. After registering an 11.1 per cent advance in 2009 to 1Mt, demand saw a further double-digit increase of 10 per cent last year to 1.1Mt – the fifth consecutive year of increase and a reflection of the solid growth taking place. Private sector consumption has now risen to 65 per cent of demand with the public sector the balance. For 2011 and 2012, Cimpor sees demand climbing to 1.2Mt and 1.3Mt, respectively and up to 1.44Mt by 2013.

There are three main demand hubs in Mozambique. The capital Maputo is by far the largest and is located in the southern region. With an overall population of 6 milion the south is considered the financial and political centre. Demand in this region area was 680,000t in 2010 and per capita consumption stood at 121kg, representing 62 per cent of overall demand. This translated to an annual growth of eight per cent last year.

Beira – located in the centre – as well as inland surrounds represent 23 per cent of consumption. This central region has a population of nine million and encompasses the the Beira seaport which acts as a gateway to the landlocked African nations of Zimbabwe, Zambia and Malawi. Consumption in this region last year was 250,000t at 27kg per capita, translating to YoY growth of 11-12 per cent.

The northern region represents 15 per cent of demand with the main areas being from Nampula to Nacala. With a population of seven million, consumption in the northern region was 160,000t

Figure 2: Mozambique consumption vs production, 2008A-2012F



Source: ICR Research / industry sources

last year up 7-8 per cent YoY. Per capita consumption in the area is around 22kg.

Existing production base

The Mozambican production base is currently dominated by Cimpor which owns 82 per cent of the country's sole cement producer, Cimentos de Moçambique. Having raised its market share from 77.4 per cent in 2009 to an estimated 81.1 per cent, Cimpor is likely to reap the most benefits from the improving demand scenario. As such, it has initated a number of capacity increases, which include the installation of a new kiln and additional grinding capabilities.

Cimentos de Moçambique's total capacity currently stands at 1.3Mta. The company's sole integrated plant is located in Matola, 15km from Maputo, with a 2000tpd clinker line with a 0.7Mta cement capacity. The company is in the final stages of doubling capacity at the Matola works through the installation of a 0.6Mta grinding mill which is scheduled to be operational in July 2011.

The company's 0.24Mta Dondo grinding plant is situated in the central region, some 30km from Beira. Approval was granted by authorities in 2009 to turn this back into an integrated unit and therefore a 1500tpd kiln is being constructed and is set for completion in 2013. An additional 0.45Mta mill is also being constructed at the Dondo site, scheduled to be finished in 2012.

In the north of the country Cimpor now operates two grinding plants. Its original Nacala facility has a capacity of 0.12Mta. Furthermore in October 2010, Cimpor acquired a 51 per cent stake in CINAC, a company with a cement grinding plant also in Nacala. CINAC has an installed grinding capacity of 0.24Mta and several limestone quarries.

After Cimpor completes its announced optimisation and expansion projects, by 2013, the company will have a clinker capacity of 0.6Mta and a cement capacity of 2.3Mta. Clinker production this year is expected to increase to 0.32Mta against 0.23Mta last year.

In terms of Cimentos de Moçambique's recent market peformance, last year cement and clinker sales advanced 13.7 per cent to 884,000t despite the company experiencing operational problems at the Maputo plant. This sales volume – the highest ever recorded by the company – was achieved due to increased cement and clinker imports as well as utilising the additional grinding capacity at Nacala.

Consolidated turnover in 2010 totalled €88.1m, up 8.8 per cent YoY. Cash costs, which were up 11 per cent to €76.6m were heavily influenced by Matola's operational problems. Clinker production was also interrupted for 45 days due to a fire in the transformer station. As well as having to increase clinker imports at much costlier prices compared to producing volumes domestically, the company was also affected by a significant rise in gas prices, which is the main fuel used at Matola, as well as rising electricity prices. Operating investments amounted to €15.6m, 29.6 per cent more than in 2009. Notable investments are the new cement mill at Matola, purchase and installation of a gearbox for a raw material mill and the modernisation of the transfomer stations at Matola, as well as the replacement of the bagging lines at all the plants.

New market entrants

There has been a distinct absence of new greenfield investment in the Mozambican cement market, but with the government keen to attract new entrants a stream of proposed projects have been hitting the headlines.

The southern region is expected to see the largest concentration of investments. Three Chinese companies plan to build plants in Maputo that will start operating as early as next year. Magude is the location chosen by Africa Great Wall

Figure 4: Mozambique's production base (2011)

Table 1: Cimentos de Moçambique results (2010 vs 2009)

	2010	2009	Change %
Installed capacity[1] (000t)	732	685	6.8
Installed clinker capacity utilisation[2] (%)	39.2	47.7	-8.5 p.p.
Cement and clinker sales (000t)	884	777	13.7
Estimated market share (5)	81.1	77.4	1 p.p.

[1] Cement production capacity with own clinker
[2] Clinker production/installed capacity (clinker)

Source: Cimpor Annual Report 2010

Cement Manufacturer for a 0.5Mta cement plant. The China International Fund's plant near Salamanga, south of Maputo is already under construction and estimated production stands at 0.8Mta/1.5Mta. A third unit, owned by GS Cimento, will have capacity to produce 0.5Mt of cement and will be located in the Boane industrial park next to the Mozal aluminium factory.

Mozambique press also reported in December last year that South Africa's PPC plans to invest in a 0.6Mta plant in Southern Mozambique and that environmental-impact surveys were being undertaken. However, no plans have been confirmed.

In the central region, aside from Cimpor's plans for its Dondo works, a company called Consolidated General Minerals (CGM) – formerly China Goldmines plc – plans a clinker grinding and cement packing plant in the port of Beira. The company is in discussions with private Italian cement producer Calme SpA, to build and operate the plant which will have a design capacity of 110tph at a cost of around US$24m. Meanwhile, Mozambique Cement & Development Company has also asked the Ministry for Mining Resources for a licence to survey limestone in the district of Buzi, Sofala province, with the view to constructing a 0.5Mta factory. Also, two new 0.5Mta milling stations at Inhaming and Tete are on the cards. There are even more speculative projects but the market cannot be expected to support all of them.

S&S Cimentos LdA (a company of the ARJ Group), earlier this year, contracted Polysius for two grinding plants. The first will be constructed in Maputo and the second in the seaport of Nacala. Both will have a rated throughput of 700tpd. Each new plant will be equipped with a two-compartment separator mill and two cement silos with a storage capacity of 1000t each.

Prices

Earlier in 2011, there were reports of the Mozambique government imposing price controls on Cimentos de Moçambique, which was selling 50kg bags of cement at US$8, with resellers almost doubling the price. However, Minister for Industry and Trade, Armando Inroga said in a recent interview that he expects cement prices to fall as of 2013, as a result of the new plants coming on-stream.

Cimentos de Moçambique's new cement line at Dondo will become operational in 2013 and will allow the company to remain the dominant player in the market, although low cost imports will be attracted by the strong market.

Trade

Currently there are no exports from Mozambique but with additonal volumes coming on-stream new markets are expected to be explored. Cimpor has already stated that it plans to search for and utilise new trading opportunities. In the central region imports are forecast to be reduced and occasional exports to neighbouring landlocked countries may begin. CGM has also earmarked exports to Zimbabwe, Zambia, Malawi and Katanga Province, Democratic Republic of Congo, following completion of its proposed grinding plant. In terms of exports from the southern area, open borders from 2012 will improve trade access to South Africa, Cimpor has noted.

Imports currently stand at around 0.8Mt and mainly arrive from China and Pakistan as well as South Africa. With Cimpor expecting increases in clinker production, it predicts clinker imports of around 290,000t and 50,000t of cement.

Outlook

Political stability and growth in GDP are expected in the near-term. The World Bank has said that Mozambique's economy would grow by about 10 per cent a year if it can maintain policy stability and exploit its massive untapped coal reserves effectively.

"In the coming years, Mozambique will achieve a 10 per cent rate of economic growth annually if it continues to pursue good policies and strategies," Justin Yifu Lin, a senior vice president at the World Bank recently noted. "Mozambique has great potential for growth and has a comparable advantage in agriculture, labour and mineral resources and you need an implementation policy which is desirable," he added. However, analysts have warned corruption, mass poverty and political instability could undermine the economy.

Cement consumption is expected to continue to increase at a high rate. The market continues to enjoy steady annual growth, and is forecast to grow at around 8-10 per cent per annum between 2011-13. Cimentos de Moçambique's new cement line at Dondo will become operational in 2013 and will allow the company to remain the dominant player in the market, although low-cost imports will be attracted by the strong market conditions. Cimpor expects to maintain a market share of at least 75 per cent in 2011, based on a market volume of 1.2Mt.

However, infrastructure limitations (including electricity, railway, road networks) will continue to put a restraint on future development.

Longer-term, new capacity volumes are expected to outpace growth in demand and it is forecast that by 2013 cement capacity could triple to 4Mta. According to Cimpor, the northern region already has an installed capacity above demand. The southern region will soon follow suit but has the added pressure of current foreign suppliers possibly continuing to push cement into Mozambique. The central region is also expected to have a supply-demand imbalance by the end of next year.