Egypt will soon have one of the largest installed cement production capacities in the world – but will demand follow? World Cement Editor, Jonathan Rowland, examines the state of the industry.

Introduction

Egypt has suffered a turbulent recent history; there are signs, however, that the worst may be past – at least in terms of the economy. Market research firm, BMI Research, recently upgraded its outlook for GDP growth for the 2017/18 Financial Year to 3.4% from 2.5%. The company also seems to be on the cautious side: consensus forecasts put growth higher at 3.9%.

That positivity may not be felt by the country’s cement industry, however. According to CW Group’s Raluca Cercel, both cement production and demand are down 5 – 7% year-on-year to June 2017. Jefferies offered similar numbers in a recent research note, predicting Egyptian cement consumption to fall by around 5% this year. Next year will see a further contraction of around 1.4%.

The major story behind this gloomy outlook is one of chronic and significant oversupply, as cement producers build out capacity in a wider context of weak construction growth. Adding to the drama has been the collapse in the Egyptian pound, following
the decision to remove its dollar peg last year. This has caused much pain for an industry that denominates a significant part of its input costs in hard currencies.

**The new Saudi Arabia?** There are a number of substantial capacity additions due to come on line in the next twelve months that will see the total installed capacity in Egypt head up towards the 100 million t mark in 2018, according to CW Group’s Cercel. That would put Egypt on the map as one the largest cement markets in terms of capacity; it will not be matched by consumption, however.

“As far as our estimates are concerned, it’s not above 50 million t for 2017,” Cercel told *World Cement*. “I would definitely compare Egypt with Saudi Arabia or the UAE: driving towards a very quick expansion of capacity without necessarily having the foundations for consumption,” Cercel continued. “Utilisation rates right now are currently around 50 - 55%, looking at the entire cement capacity in Egypt. With the new capacity coming online – and it is quite significant – I don’t think utilisation rates will be large enough to sustain profitable production.”

Indeed, according to Cercel, utilisation rates may not head north of 60% until 2022 or 2023 at the earliest, although in a country where security and politics play such a significant role, it is always hard to be certain.

“Construction may go through a boom in 2018, if there is some sort of populism that drives it, but that is not something that falls into the realm of the normal.”

**Beni Suef and beyond** Leading the way is the huge €1.05 billion Egyptian Ministry of Defence project at Beni Suef, where six 6000 tpd lines are being constructed. Pilot production was planned for December 2017. Sinoma International Engineering subsidiary, Chengdu Design & Research Institute (CDI), was awarded the turnkey contract for the project.

A number of European companies are also involved in the project. In May of this year, Loesche reported that it had been awarded a contract to supply 18 vertical roller mills to Beni Suef, while back in January, German materials handling specialist, AUMUND, said it had been appointed to supply the clinker conveying equipment for the project.

Loesche’s scope of supply includes raw mills with a 500 tph capacity to grind raw materials to a fineness of 12% R 90 um, cement mills with a throughput of 350 t/h to grind cement to a fineness of 3200 Blaine, and coal mills grinding to a fineness of 10% R 90 um.

AUMUND will supply a total of 108 pieces of equipment to the project, including four 650 tph BWG belt bucket elevators and three 550 tph BWZ chain bucket elevators per line. Each production line will also include four 170 tph BWG-L belt bucket elevators, one 80 tph BWZ-L chain bucket elevator, and six 375 tph pan conveyors.

The German flavour to the project continues with Pendulum coolers from IKN, as well as apron feeders and crushers from HAZEMAG to process limestone, gypsum, and clay.

The Dülmen-based company will supply six HAF 22116 apron feeders, with spiral conveyors, and six HPI 2025 primary impact crushers, for processing 1200 t/h of limestone to a feed size of 1500 mm. Gypsum will be crushed by three HGI 1420 impact crushers at a feed rate of 350 t/h and to a feed size of 800 mm to D95 <40 mm, while clay will be processed with six HAF 1480 apron conveyors and six HRC 0816 double roll crushers at a feed rate of 400 t/h and to a feed size of 500 mm to D95 <75 mm. There may also be further capacity expansion on the way. In March, local reports indicated that the government’s Industrial Development Authority has tendered a total of 14 cement licenses at the end of 2016 – although it had only awarded three to the date of the article. These were to Egyptian Cement for a plant in South Valley for a plant in Beni Suef, and El Sewady Cement for a plant in Ain Soukhna.

El Sewady Cement’s Ain Soukhna plant is to be constructed by FLSmidth. Announced in March, the order includes plant engineering, as well as a complete range of equipment from the Danish engineering company and its subsidiaries, including the following:

- OK 39-4 vertical roller mill for raw material grinding.
- EV 250 x 500 hammer impact crusher.
- Stacker and reclaimer systems for storage.
- QCK quality control system.
- ECS/ControlCenter control system.
- ROTAX-2 rotary kiln with low NOX ILC calciner.
- JETFLUX burner.
- FLSMithd Cross-Bar cooler.
- Planetary gear units from FLSMithd MAAG Gear.
- Electrostatic precipitators and fabric filters from FLSMithd Airtech.
- Weighing and metering systems from FLSMithd Pfister.

The order will be fully executed by 4Q18, FLSMithd said in a press release. The capacity of the new production line was not released.

Located nearly 500 km south of Cairo, Egyptian Cement’s Sohag plant is being construction by CDI and includes Loesche raw meal (540 tph), cement (350 tph) and coal (45 tph) mills. The cement mill will be equipped with a COPE drive, which was developed with Renk specifically for vertical roller mills with over 6 MW of power. According to local media reports, the plant will have a capacity of 2 million tpy at a total investment of €6 billion.

South Valley Cement Co.’s Beni Suef project aims to increase its production capacity from 1.5 million tpy to 3 million tpy. Tenders were open for the remaining eleven licenses with seven companies showing interest – although no further activity appears to have been reported since.

In addition, FLSMithd received an operating and maintenance contract with Wadi El Nile Cement, covering their cement plant located around 120 km south of Cairo. The Danish company was also contracted to expand the capacity of the plant from 6000 tpd to 7200 tpd – a project that was expected to be operational over the summer.

The O&M contract runs until December 2021 and is one of three that FLSMithd has won in Egypt, which has been a “pioneer in outsourcing operation and maintenance activities,” said FLSMithd in a press release.

**What capacity expansion means** The impact of these capacity expansions will send waves through the entire Egyptian cement industry. “Cement prices will decrease – and will do so quite significantly,” said CW Group’s Cercel, as “all the players on the market will start competing with each other far more intensely.”

The price-depressing nature of this capacity boom will crimp cement companies’ ability to manage the major macroeconomic shock to hit Egypt last year: the floating – and subsequent collapse – of the Egyptian pound. In November 2016, the central bank removed the Egyptian pound’s peg to the US dollar. The currency has since fallen by over 50% against the US dollar. This has hiked operating costs for cement makers; according to some estimates, 30 – 35% of cement producers’ costs are in hard currency, particularly those that use imported fuels denominated in US dollars, such as coal.

This mix of currency devaluation and rising operating costs has (unsurprisingly) squeezed cement makers’ margins – particularly those that report in hard currencies. LafargeHolcim, for example, noted a “fall in profits in challenging market conditions” in its 2Q17 report. The Swiss company is the country’s second-largest producer, behind HeidelbergCement.

Both majors said they would be raising prices in their 1H17 interim reports. Indeed, LafargeHolcim reported a 10% increase in prices in 1H17, while HeidelbergCement also said it has raised prices – with plans for further increases: “significant price increases [are] planned to ease margin pressure[,]” it said.

This may be harder to implement, however, as the overwhelming overcapacity in the industry hits home next year.

There is also a technological side to the equation, Cercel explained. “In Egypt, most plants are quite high capacity. If you run it at utilisation rates below 30%, you will end up paying a lot of money in equipment maintenance. So a lot of manufacturers prefer to run at higher utilisation rates, sell the cement at lower prices, just so they don’t damage their equipment.”

Could exports provide some relief for Egyptian cement producers? Not according to Cercel, "given their geographical position and given that the markets for which they would have to compete are already supplied by cheap exporters, such as Iran.”

(Over)preparing for the worst Given the obvious negative impacts that the capacity expansion will have on the industry, why have Egyptian
cement producers allowed this situation to happen?
It is a question that needs to be understood in the
context of a high-level of government involvement in
the industry. This brings its own set of priorities, not
necessarily linked to normal commercial concerns.
"I think it’s a ‘let’s-be-prepared-for-the-worst-
case-scenario’ type of rationale," explained Cercel.
"Egypt has been in the scenario of having to import
cement in the past and they definitely do not want
to be in that situation again. And that is why we now
see Beni Suef being built by the Egyptian Ministry of
Defence. So they are really seeing this as a national
priority for the long term."

A changing landscape
Barring some major black swan event, Egypt will be a
tricky market to operate in over the medium term. As
a result, the landscape of the industry is also likely to
change, with the potential for rationalisation and –
down the track – further privatisation.

"The small players will be eaten by the big fish," explained Cercel, consolidating what is a pretty
fragmented industry. "Another thing that I imagine
could happen is that the whole privatisation wave
that happened several years ago, will happen again.
So cement companies that are now nationally owned
(such as Beni Suef) will probably be privatised in five
to ten years time."

With its huge and youthful population, Egypt has
much potential – but also many significant challenges.
The same can be said of its cement industry. Forecasts
for a growing economy will help – but short of an
unexpected boom in construction in the next couple
of years, the road back to industry balance appears
likely to be a long slog.

Acknowledgements and sources
The author wishes to thank Raluca Cercel, Senior Analyst at CW
Group, for sharing her insight into the Egyptian cement market.
Additional material was gathered from company press releases,
local media reports, corporate results, and analyst reports.