Ready-mixed fortunes

The world's cement giants look set for recovery—but will it be durable?

Cement is as vital a commodity to fast-growing economies as oil or steel. No other material is as versatile when it comes to building houses, roads and big chunks of infrastructure. It is a huge business: the world's cement-makers rake in revenues of $250 billion a year. Outside China, which accounts for half of global demand and production and is mainly served by local firms, six vast international firms—Buzzi, Cemex, Heidelberg, Holcim, Italcementi and Lafarge—together have 40% or so of the market. Yet the business rarely attracts much attention.

Many in the industry are happy to keep it that way. The firms that make this most basic type of glue, whose recipe has hardly changed in hundreds of years, are reticent. Cement remains a polluting and energy-hogging business, for all its attempts to clean up a bit. Investors, though, ought to take more of an interest. After a few hard years, with construction slumping in the rich countries, a recovery at last seems in sight. Demand is perking up just as the big cement-makers have all but dealt with the damage to their balance-sheets inflicted by the acquisition spree that made them into global giants.

The structure of the industry also makes cement firms shy of attention. Cement is bulky and cheap. It makes sense to produce it in vast plants close both to limestone quarries, which provide a vital raw material, and to customers. Cement is so costly to transport that it rarely travels more than 200 miles (320km) by road, so its markets tend to be local. Barriers to entry are high: a new cement works producing 1m tonnes a year, the smallest worth building, costs around $200m. It is much cheaper for an incumbent to expand. All this means the industry tends towards oligopolies, which periodically attract interest from regulators.

A slender seaborne market provides a bit of competition. But only around 3% of global production is traded across borders. Countries with excess capacity and coastal cement works (built mainly to supply home markets by boat) can dump their spare output in nearby coastal states, capping prices there. Prices will tend to be higher, and profits fatter, in places far from big exporters such as China, Japan and Turkey, and in landlocked countries.

Though the cement trade may not be global, consumption follows the same path as other more widely traded commodities that have a close correlation with economic expansion. In recent years demand in emerging economies has risen sharply, as they urbanise and industrialise: they now consume 90% of the world's cement output, and this share is likely to keep growing. In rich countries fewer buildings and bridges are going up, so demand for cement is in long-term decline.

For two decades the world's biggest cement-makers, facing declining growth rates in their home markets, have been buying firms in developing countries. Holcim, based in Switzerland, now rakes in around 70% of profits from the developing world; Lafarge, of France, is not far behind. But in the rush to buy the best firms in the most attractive locations the cement giants overpaid, leaving a "trail of value destruction", according to Phil Roseberg of Sanford C. Bernstein, a research firm. Because cement-making is such a local business, scale brings few cost advantages for global companies over domestic ones.

Since the financial crisis the big cement firms have suffered plunging sales in rich countries. In the emerging markets they have entered, the surge of new capacity they built has sent prices sliding. And energy bills, a big slice of costs, have risen everywhere. Yet HSBC, a bank, reckons the foundations have been laid for a recovery. Most big firms have cleaned up their balance-sheets and cut costs. Demand is still growing in Asia. American house building is perking up, even if Europe languishes in recession. A fall in coal prices, caused by a glut of gas, is cutting energy bills, whereas still-high oil prices discourage firms from trucking in cement over long distances, preserving local oligopolies.

The brighter outlook may not last, though. Some emerging economies may be near the end of their cement-hungry phase of rapid construction growth. According to Bernstein, demand for cement in Turkey and Malaysia and even parts of China may peak in the next five years. If so, the expected recovery in cement prices and profitability may not prove as durable as the material itself.

Fonte: The Economist, London, v. 407, n. 8841, p. 68-69, 22 a 28 Jun. 2013.