



PHILIPPINES

RIDING ON CONSTRUCTION BOOM



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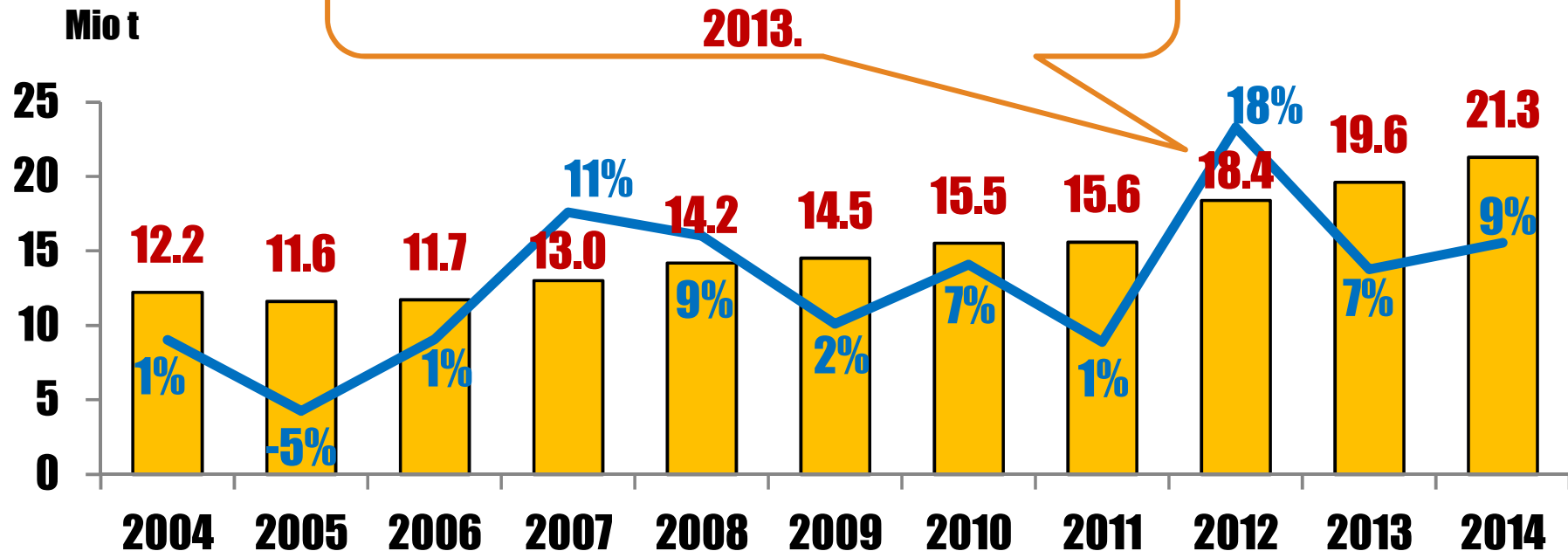
PHILIPPINES: A COUNTRY OVERVIEW



- **One of the fastest growing economies in Asia; 12th largest country in the world by population (100m).**
- **GDP: USD 285 bn. Per capita: USD 2,850.**
- **As % of GDP- Exports: 29%, Imports: 32%**
- **Median Age: 23 years**
- **Past GDP grew by an average of 5% since 2002. Growth was robust 7.2% in 2013 and 6% in 2014. Future GDP growth is projected at around 6%.**
- **Service sector (IT-BPO) is the main driver of the economy; its contribution to GDP is 57%. Industry and Agriculture contribute 32% and 11%, respectively.**
- **The IT-BPO export revenues more than doubled to \$18 billion from 2008 to 2014, while the number of employees in the sector surpassed 1 million.**

CEMENT DEMAND

**Construction boom in 2012 –
a result of government's efforts to push
the economy as elections were due in
2013.**



- **Past 10 years and 5 years CAGR 6% pa and 8% pa, respectively.**
- **Since 2011, CAGR has grown at 11% pa.**

DEMAND DISPERSION

- 55-60% population is in Luzon
- Luzon contributes
 - 70-75% in country's GDP
 - ~60% in country's construction expenditure

Luzon (75%)
16.0 mio t

**National Capital
Region accounts
for 35% of
cement demand**

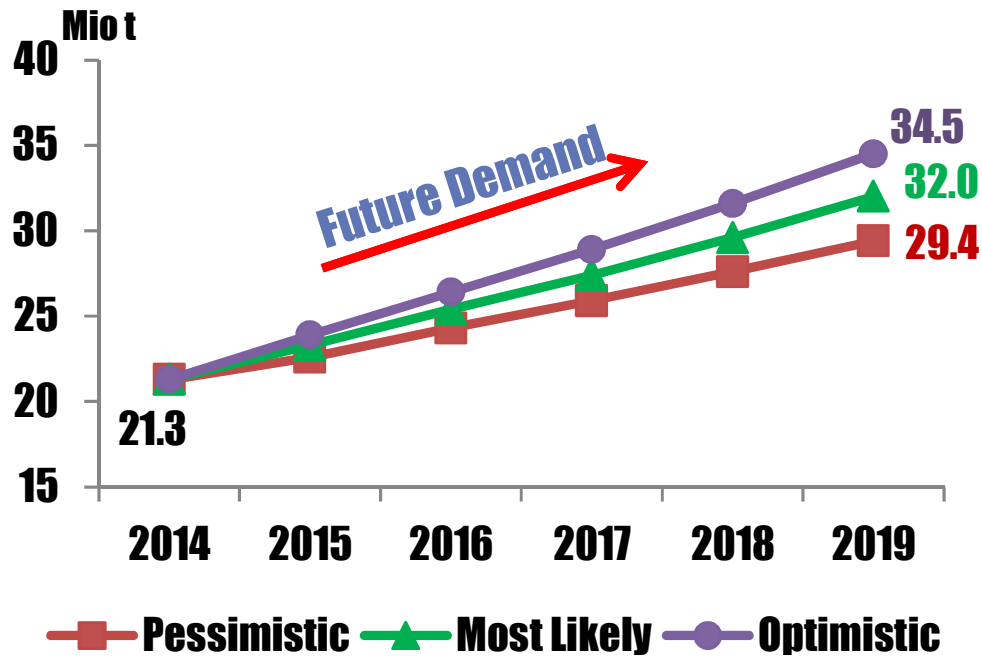
Visayas (7%)
1.5 mio t

- Around 20% population is in Visayas
- Visayas contributes ~12% in country's GDP

- Around 25 % population is in Mindanao
- Mindanao contributes ~15% in country's GDP

Mindanao (18%)
3.8 mio t

FUTURE DEMAND PROJECTIONS

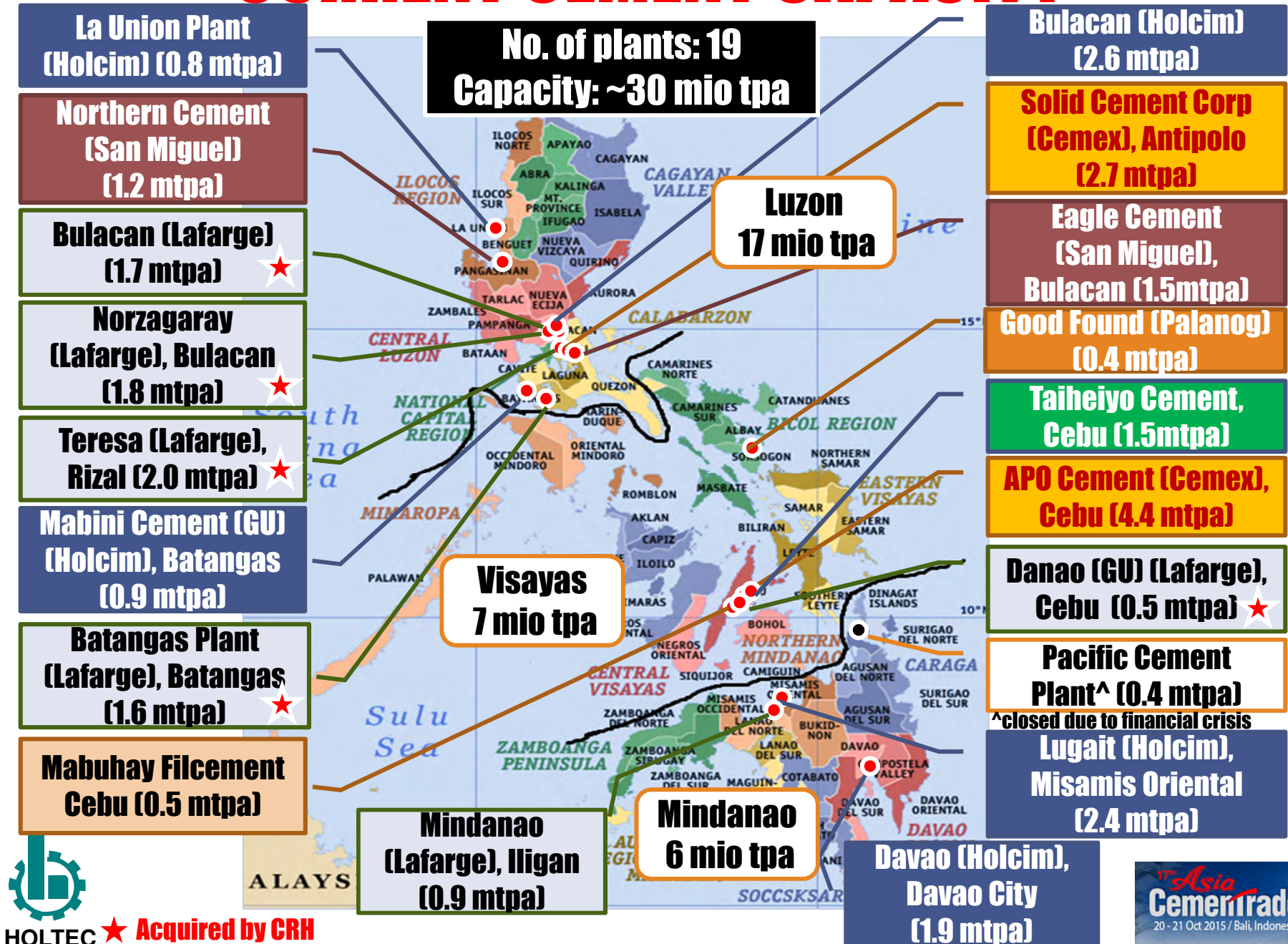


Future cement demand is expected to grow at 7-10% pa with most likely growth rate at approx. 8.5% pa.

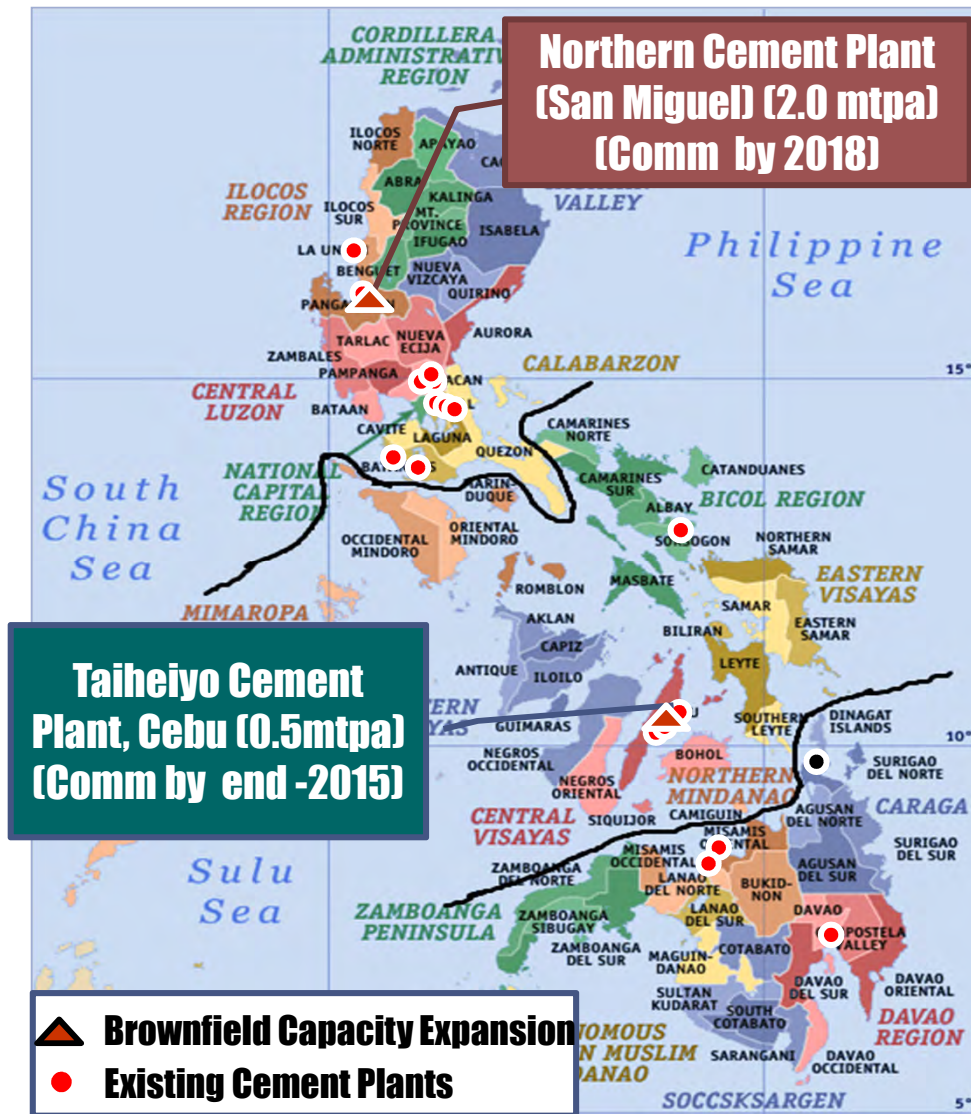
Demand Drivers

- The government's spending on public works, strong investments in real estate, and major reconstruction work after a series of natural disasters.
- Greater investment in housing from both public and private sectors.
- The rollout of the private-public partnership projects (PPP), coupled with the low interest rate.
- Philippines construction industry grew at around 14% p.a. in past 5 years and trend is likely to continue in future.

CURRENT CEMENT CAPACITY

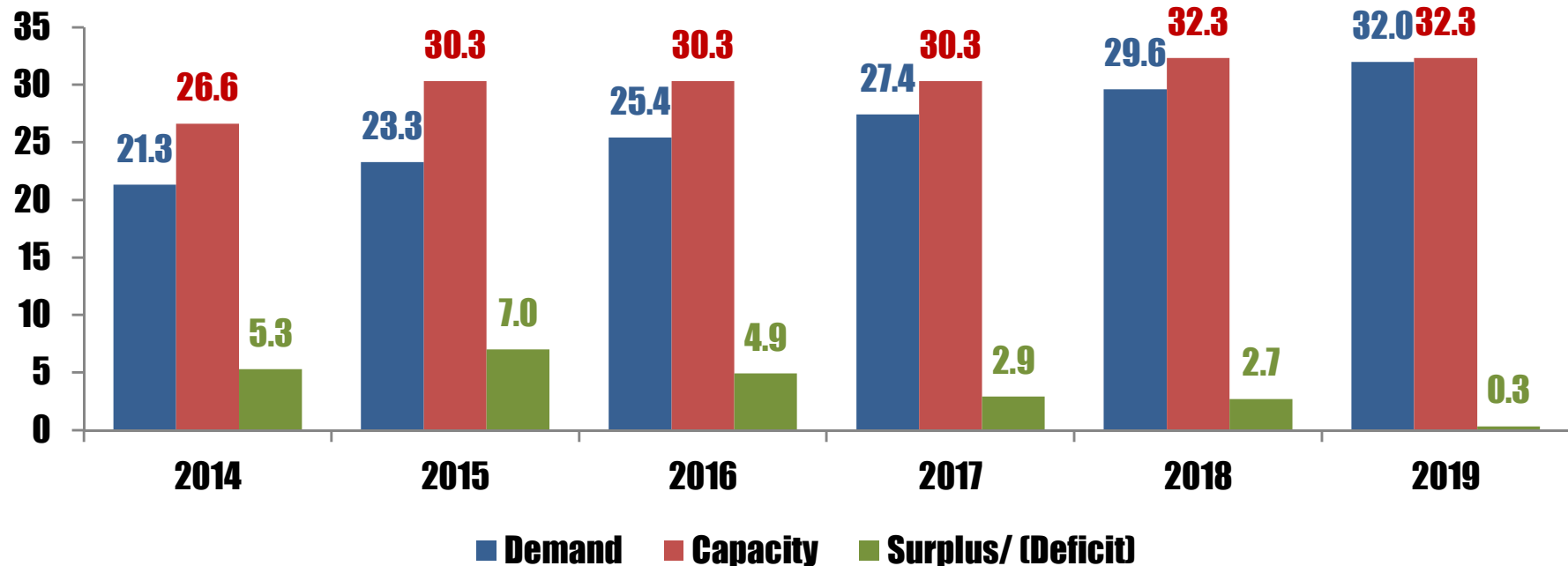


FUTURE CEMENT CAPACITY ADDITIONS



- 2.5 mio tpa of capacity addition is expected over next 3-4 years.
- Cement capacity envisaged to reach ~32 mio tpa from present 30 mio tpa.
- Another 6-7 mio tpa capacity additions are under planning stage.

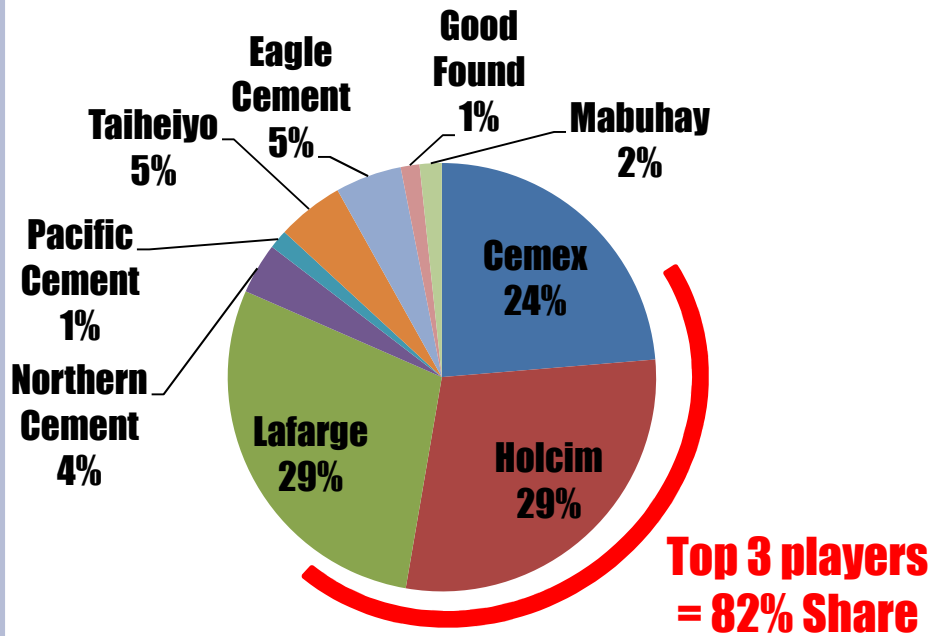
DEMAND-SUPPLY SCENARIO



- **Philippines is a surplus country and is likely to remain surplus over next 4-5 years.**
- **Beyond 2019, it may become deficit if no new capacities come online.**

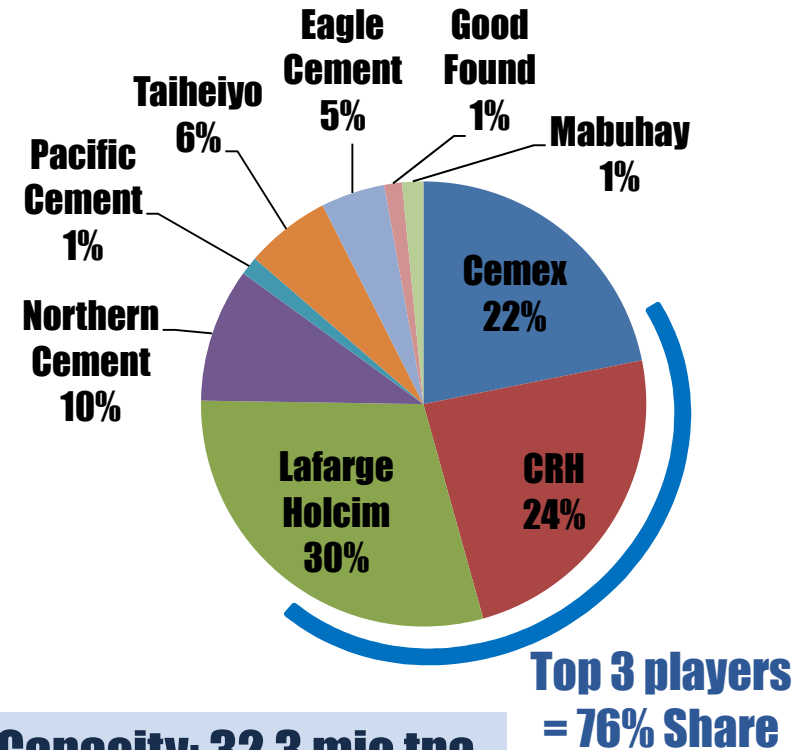
CAPACITY SHARE

Today



Capacity: 30.3 mio tpa

2019



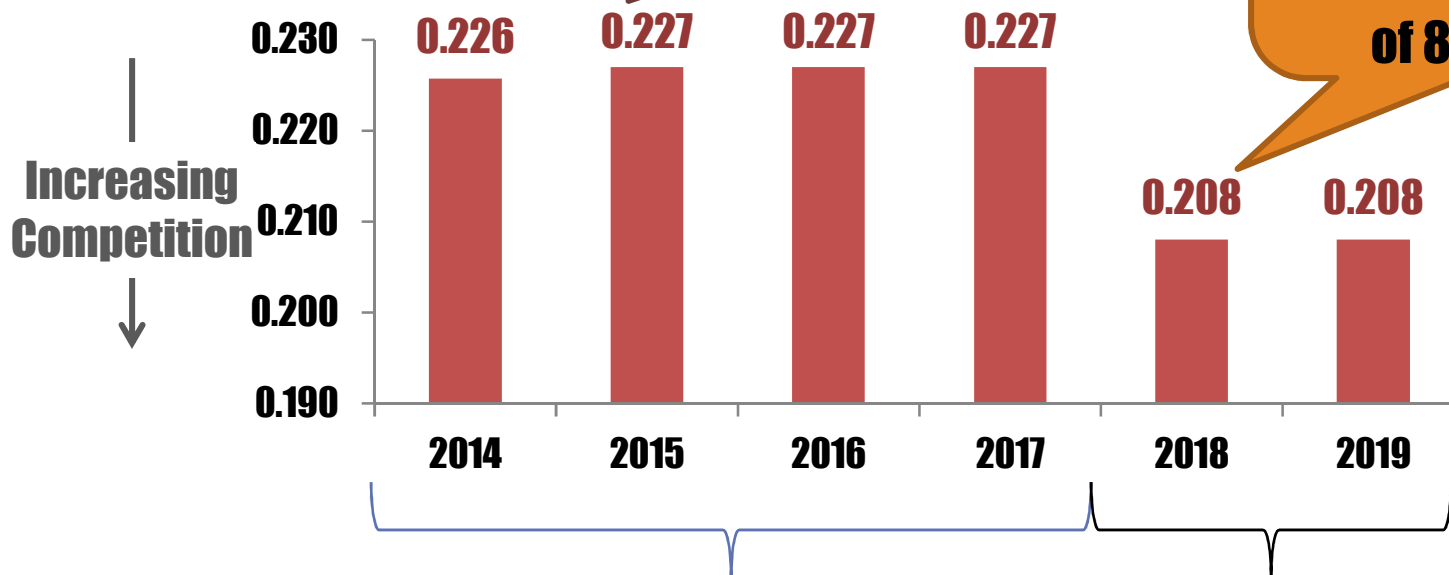
Capacity: 32.3 mio tpa

**With Lafarge Holcim merger, some capacities will be transferred to CRH.
Total number of players remain same i.e. 9**

HERFINDAHL INDEX

After change in ownership from Holcim & Lafarge to LafergeHolcim & CRH. No significant change in HI as still top 3 players continue holding ~80% share.

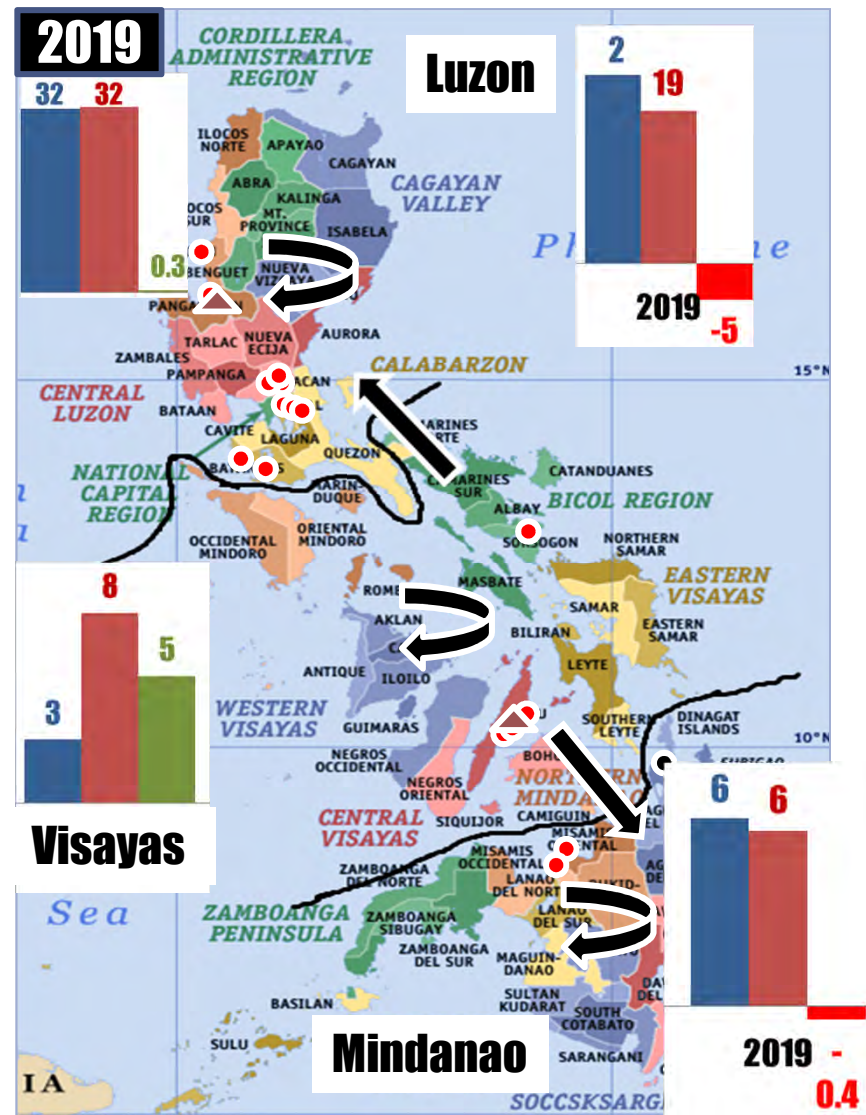
Dip in HI as top 3 players are envisaged to have 75% share instead of 80% share.



**Total 9 Players
and 80%
capacity share
with 3 players**

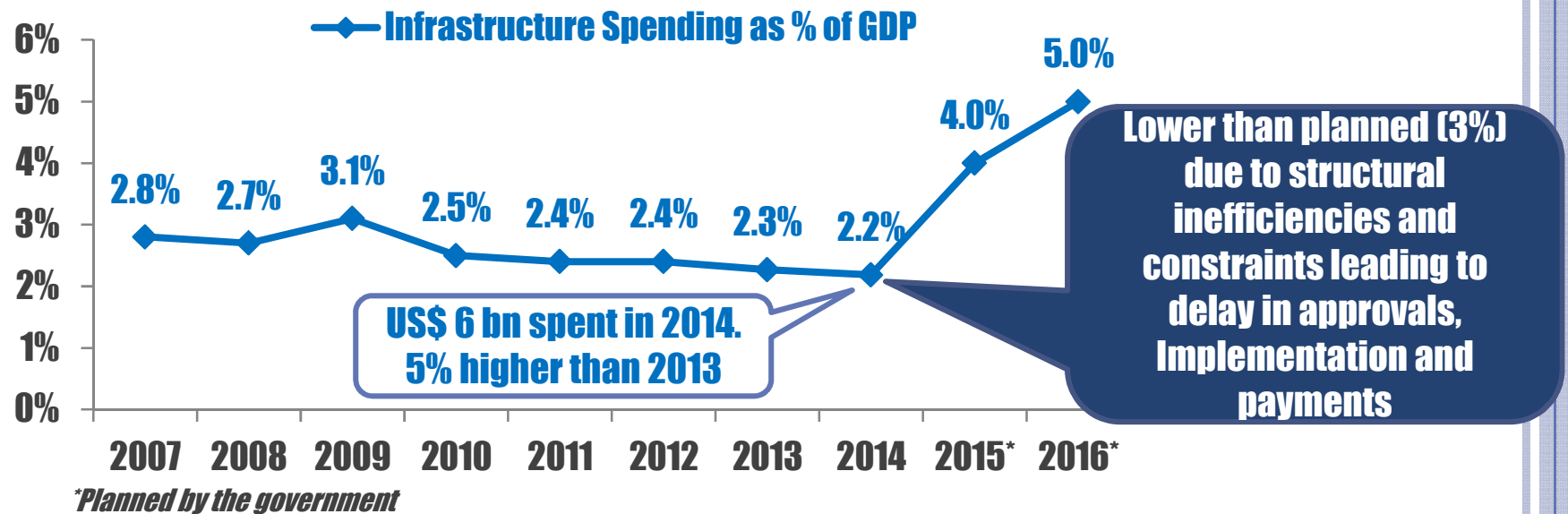
**Total 9 Players
and 85%
capacity share
with 4 players**

Mostly plants supply within the regions



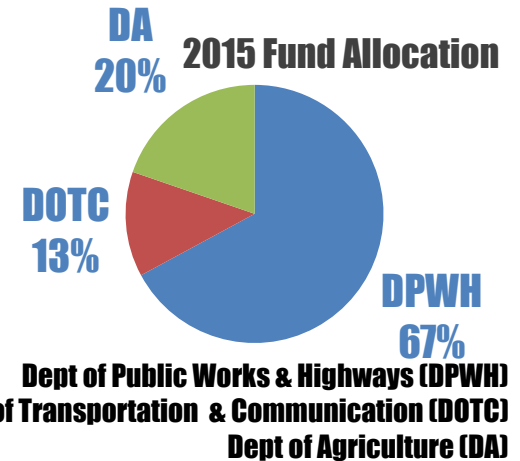
INFRASTRUCTURE DEVELOPMENT 1/2

- Philippines has shown a strong economic growth and is among the fastest growing economies in Asia. However, it ranks low in quality of infrastructure.
- The government plans to invest heavily on infrastructure development by increasing public infrastructure spending to at least 5% of the country's GDP by 2016, from a level of less than 3%.



INFRASTRUCTURE DEVELOPMENT 2/2

- According to Philippines mid term Development Plan (2013-2016), the govt. plans to spend ~US\$ 55 bn on infrastructure development.
- In 2015, the government has allocated ~US\$ 10 bn for infrastructure.
- The government is committed on PPPs (Public Private Partnership) for the development of infrastructure in the country.
- Philippines has a long history of PPP projects which goes back almost 30 years. The country has successfully implemented many such projects in the past.
- Approx. US\$ 3 bn PPP projects awarded since 2010.
- 5 PPP projects worth more than \$11 bn approved in 2015 to upgrade roads, airports, seaports and boost economic growth.
- The Philippine construction sector has grown at an average of 14 % pa in the past 5 yrs. It is expected to continue growing at double digits in the coming years .



MAJOR PPP PROJECTS (PHILIPPINES)

9 projects worth US\$ 3 bn awarded since 2010

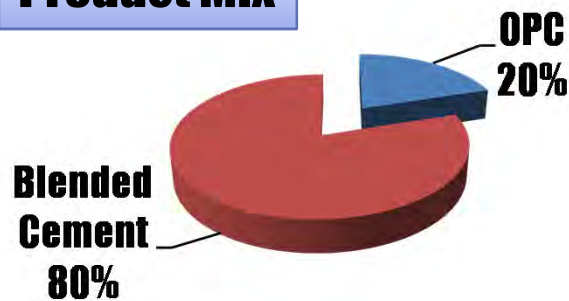
- Daang Hari–South Luzon expressway link road (US\$ 0.04 bn)
- School Infrastructure Project phase 1 & 2 (US\$ 0.55 bn)
- Modernization of the Philippine Orthopedic Center (US\$ 0.13 bn)
- Ninoy Aquino International Airport expressway (US\$ 0.34 bn)
- Automated fare collection system project (US\$ 0.04 bn)
- Mactan–Cebu international airport expansion project (US\$ 0.38 bn)
- Light Rail Transit line 1 Cavite extension project (US\$ 1.42 bn)
- Integrated Transport System ITS – Southwest Terminal (US\$ 0.07 bn)

5 projects worth US\$ 11 bn approved in 2015:

- Makati Pasay Taguig Mass Transit System Loop Project
- North South Railway Project
- Motor Vehicle Inspections System Project
- Civil Registry System Information Technology Project Phase II
- Expansion of the Tarlac Pangasinan La Union Expressway

MARKET CHARACTERISTICS

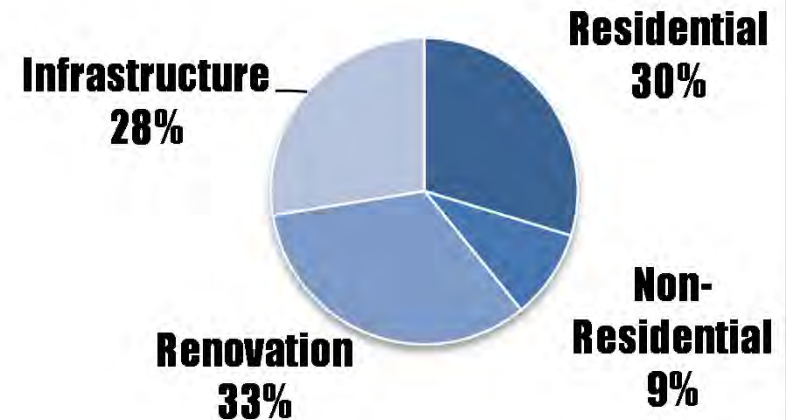
Product Mix



Used by big contractors and RMCs

Type IP, Type M, Type S, Type N and Type P.
Type IP most preferred in Retail Segment

Market Segmentation



Packaging

Bulk : 20-25%
Bag : 75-80%

40 kg Poly Propylene woven bags & Kraft paper bags. Masonry cement in 36 Kg bags

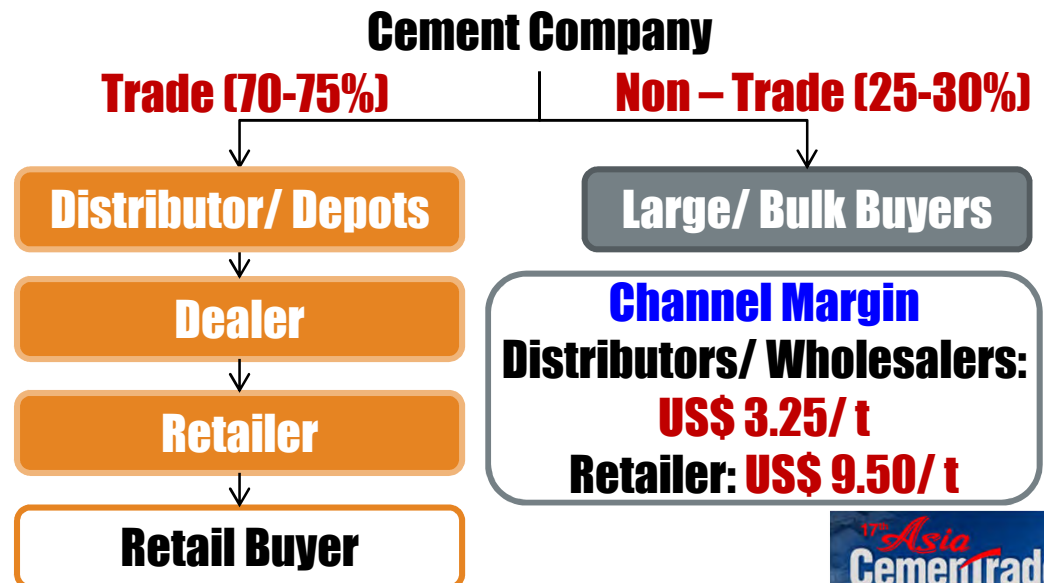
Prices

USD 112-120/ t

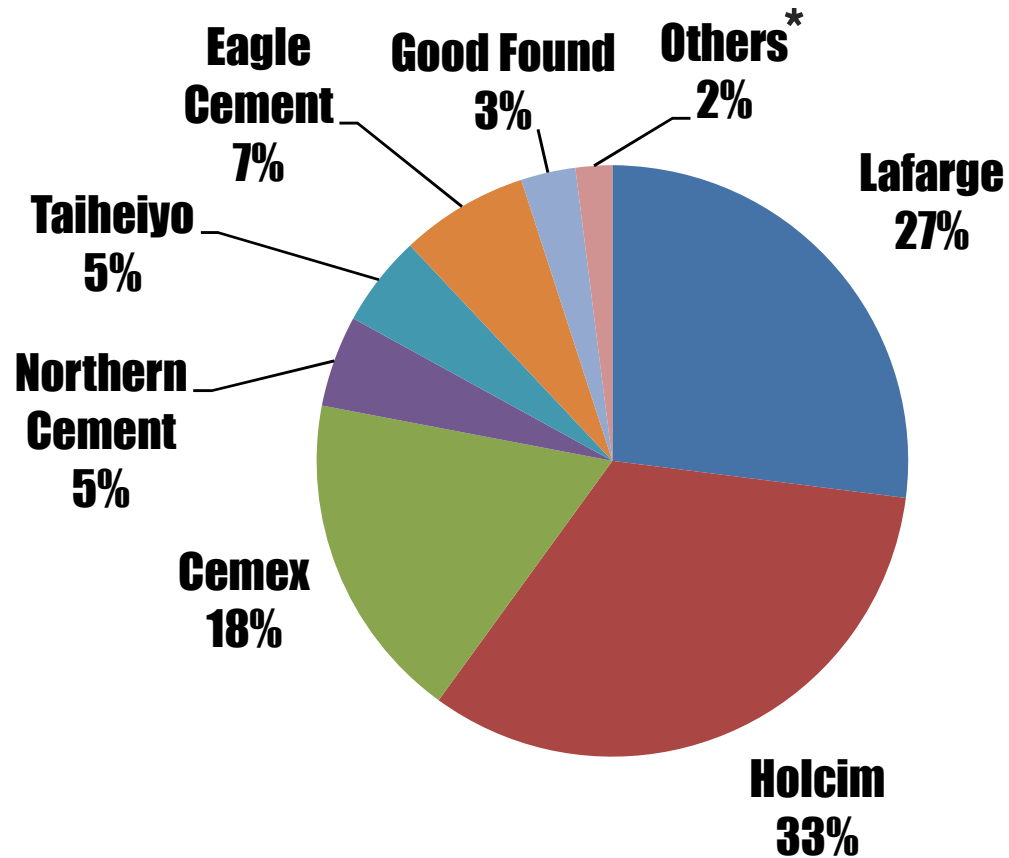
Dept. of Trade & Industry (Trade Ministry) monitors the prices



Distribution Channel



MARKET SHARES

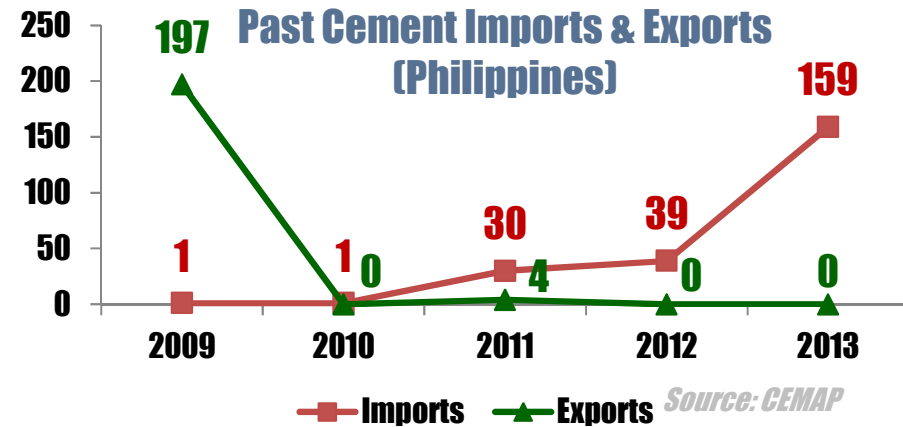


Holcim, Lafarge and Cemex are the market leaders with 78% share
Total 9 players in the market

IMPORTS AND EXPORTS



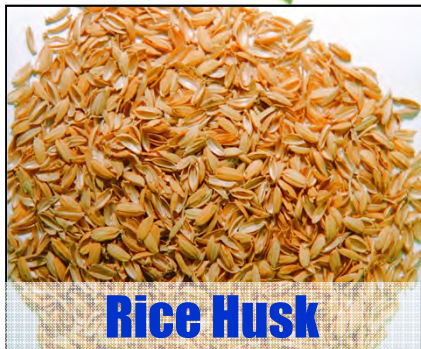
Cement Demand–Supply Scenario in Philippines & its neighbouring countries



- **Cement imports and exports are almost negligible in Philippines.**
- **Imports almost negligible since 2009, although, there was a slight increase in 2013.**
- **Almost no exports since 2009.**
- **The imports have been negligible as freight and redistribution cost are high, although there are no tariffs on cement imports into Philippines.**

ALTERNATE FUELS

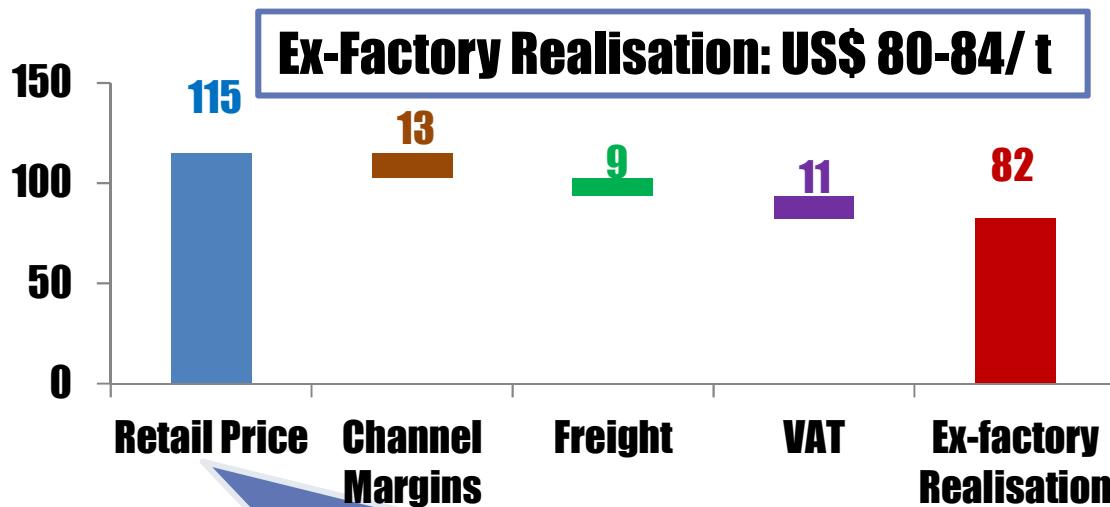
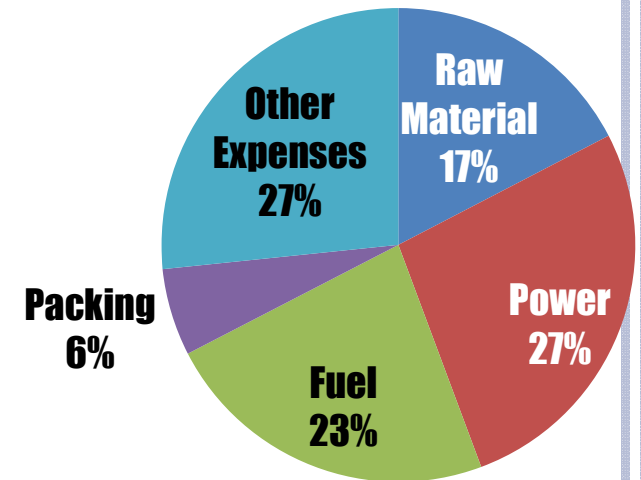
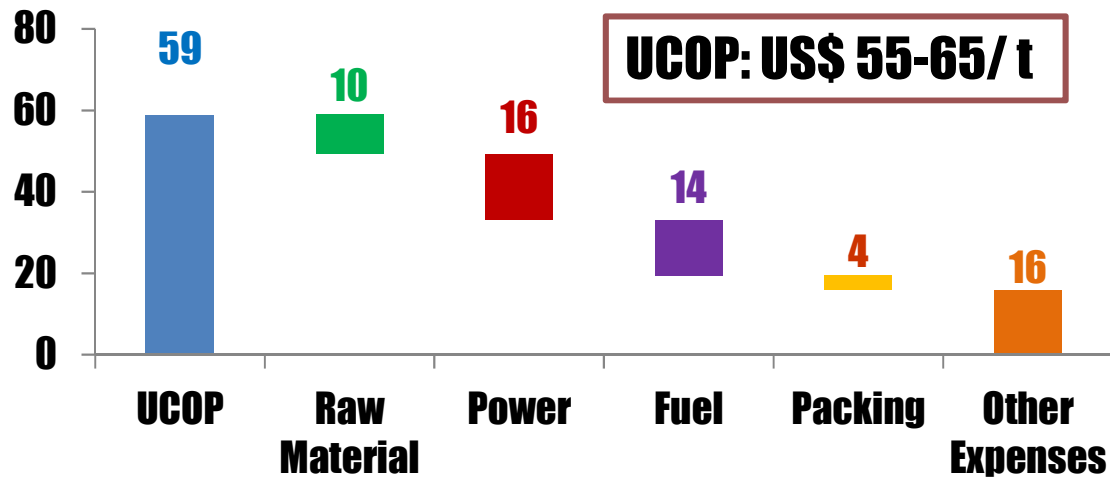
**Municipal Solid Waste/
RDF**



Rice Husk

- **Conventional fuels used in Philippines Cement Industry is Coal and Pet coke.**
- **Most commonly used alternate fuels in Philippines are Rice Husk and RDF (Refuse-derived fuel).**
- **Some cement companies like Lafarge are using as high as 40% alternate fuels in the fuel mix.**
- **Alternate fuel has NCV of around 3,000–4,000 Kcal/ kg against 4,500 Kcal/ kg obtained from domestic Philippines coal.**

PROFITABILITY

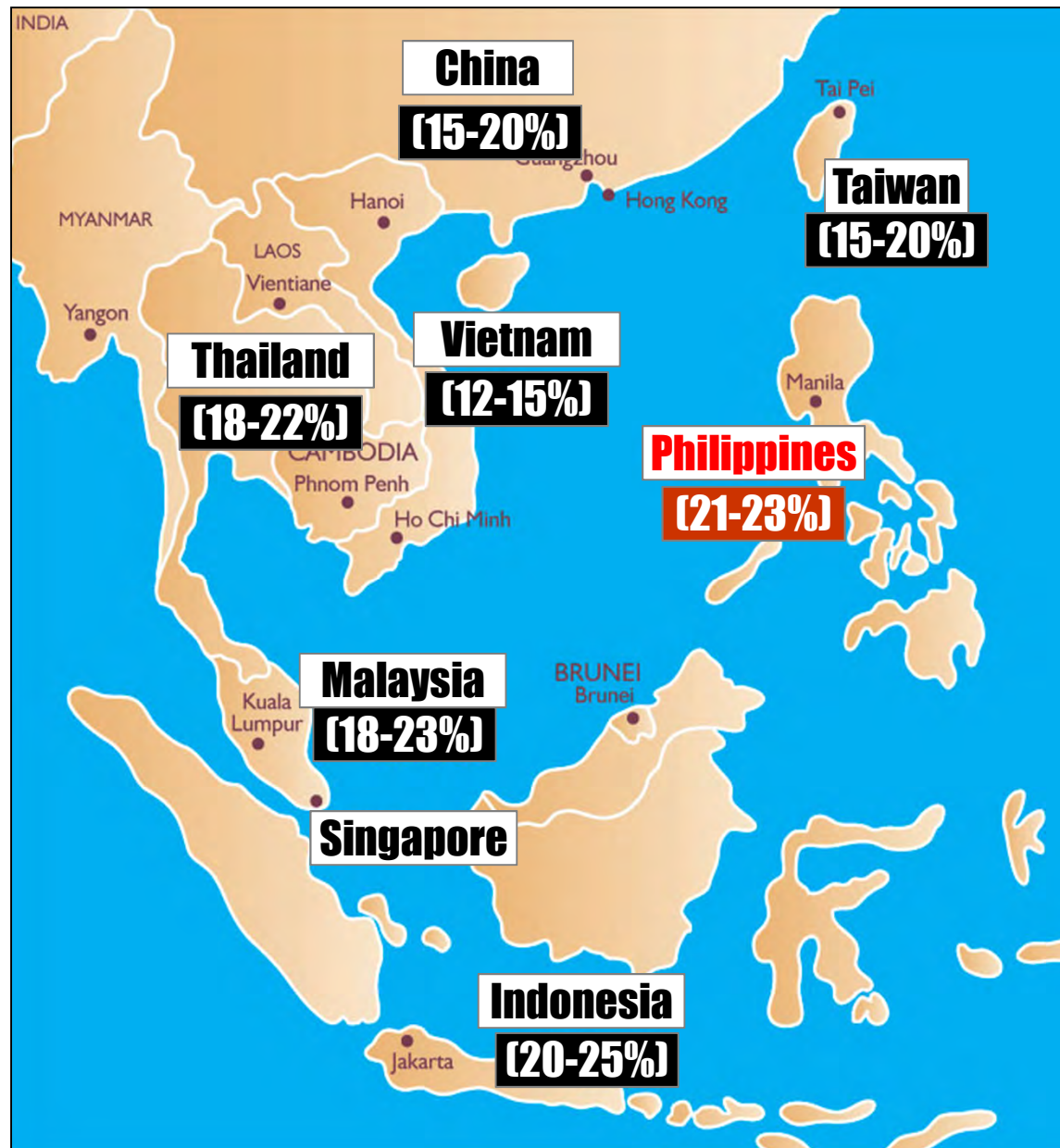


Revenue (Price-VAT):
US\$ 102-107/ t
Expenses: US\$ 78-82/ t

EBITDA: US\$ 22-24/ t
EBITDA Margin: 21-23%

Prices fell in 2011, from ~US\$ 118/ t in 2010 to ~US\$ 102/ t, as new brands entered the market. However, since 2012, the prices have risen steadily & are currently back to 2010 levels.

EBITDA: PHILIPPINES & ITS NEIGHBOURS



OPPORTUNITIES AND CHALLENGES

- **Optimistic Future Demand:** Demand is expected to grow at healthy rate of 7-10% pa on back of the construction growth and high government spending on infrastructure.
- **Low Per Capita Consumption (PCC) of Cement:** Philippines has a PCC of approx. 204 kg whereas in most the neighbouring countries PCC is in the range of 400-700 kg, which implies a considerable scope for growth.
- **Booming Construction Sector:** In the last 5 yrs, Philippine construction sector has grown at an average of 14 % pa and a similar growth is expected in future.
- **Limestone:** Availability of limestone is not a constraint and is generally found across the country.
- **High Power Cost:** The cost of power in Philippines is around US\$ 0.15/ kWh against ~ US\$ 0.10/ kWh in the region.
- **Low Energy Efficiencies:** High power and fuel consumption in most of the plants in the country as the technology used is not latest and plants are of old vintage. Opportunity to reduce energy consumption.

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Thank you