

Equities

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2012 Q1 US cement industry outlook

Demand set to recover but price negotiations hit obstacles

■ Industry Overview

- **Conclusion** — With the May 9 Holcim announcement, the six US cement majors have all announced results. In 2012 Q1 numbers, there was a clear recovery in demand but price negotiations hit obstacles, in line with our expectations. Although visibility on the volume recovery is increasing, rises in unit prices look to still be up ahead, as price-hike negotiations drag on.
- **Demand** — The six majors reported surges in January–March cement shipment volumes ranging from +10% YoY to +25%. Demand contracted rapidly between 2008 and 2010 and was flat in 2011, with no marked recovery, but results confirm that demand has finally entered a recovery phase since the start of 2012.
- **Prices** — Four majors reported prices for January–March cement shipments ranging from flat to +5% YoY. We believe they have not been able to recover the price ground lost in 2011 and while demand has turned higher, we sense that price-hike negotiations have hit obstacles.
- **2012 outlook** — Italcementi lowered its cement price outlook substantially. While it had been anticipating hikes of +5% to +10% at the last results announcement, it lowered this forecast range to +1.5% to +5% at this results announcement. We think this reflects the way that price-hike negotiations have run into difficulties.

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US cement industry trends

Demand trends

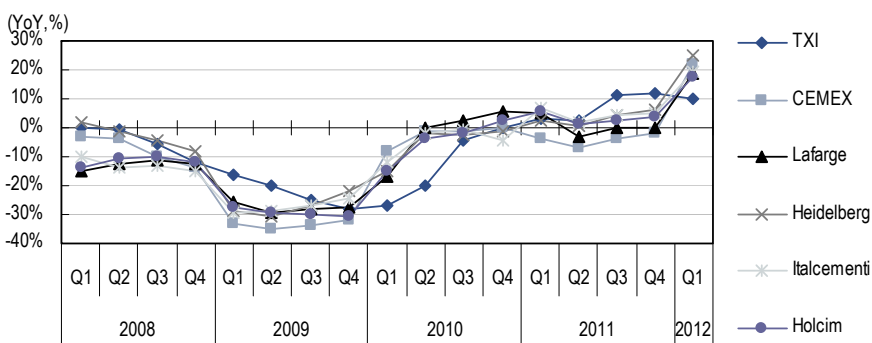
No doubt that demand has entered a recovery

However, the rapid recovery in Q1 is unsustainable

The six majors reported surges in January–March cement shipment volumes ranging from +10% YoY to +25%. Demand contracted rapidly between 2008 and 2010 and was flat in 2011, with no marked recovery, but results confirm that demand has finally entered a recovery phase since the start of 2012.

However, there was a major negative impact from poor weather in CY2011 Q1, resulting in a large YoY increase in 2012 Q1. As such, we do not think the same high pace of shipment growth will continue throughout 2012. The majors have not changed their full-year outlooks even after the rise in demand in Q1, so high growth is unlikely to continue.

Figure 1. Shipment volumes for the six majors in the US cement market



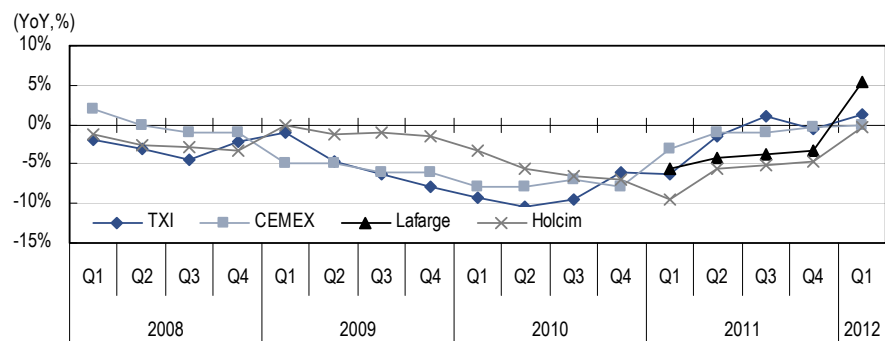
Source: Company data, Citi Investment Research and Analysis.

Price trends

Price hike negotiations bogged down

January–March cement shipment prices at the four majors were more or less flat (+0% to +5% YoY). It appears prices have not rebounded fully from last year's declines, and while demand is improving price hike negotiations have bogged down. It seems the sticking point is low operating rates, and price hikes during H1 seem unlikely. Some cement makers have said that the next round of price negotiations will come this autumn, so hikes look likely to be delayed until H2.

Figure 2. Cement shipment prices for four major firms in the US market



Source: Company data, Citi Investment Research and Analysis.

2012 outlook

There are no major changes to the outlook of cement makers, but Italcementi has lowered its cement price outlook sharply. Although it forecast a 5%-10% price increase at its last results announcement, this time it forecasts a rise of just 1.5%-5%. We think this is because price negotiations have bogged down.

Figure 3. 2012 cement shipment volume and price outlook for five majors in the US market

Company	Volume	Price	Comment
CEMEX	+low single digits	-	No outlook change from last quarter
Lafarge	-1~+2%	-	No outlook change from last quarter
Italcementi	+1.5~+5%	+1.5~+5%	Price outlook down from +5-10%
Holcim	+small	-	No outlook change from last quarter
Heidelberg	+4~+7%	+	No outlook change from last quarter

Source: Company data, Citi Investment Research and Analysis.

Appendix A-1

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