

Vietnam's export boost

Vietnam's cement industry expanded by 0.9 per cent in 2020, mainly driven by buoyant clinker and cement export activity. As new export destinations continue to be explored, leading private cement firms look to develop new facilities to meet demand from overseas, while the domestic market still holds much long-term potential for growth.

■ by **Hai Khieu**, *FiinResearch (FiinGroup), Vietnam*



Both the positive long-term outlook for Vietnam's cement market as well as the ability to export to overseas destinations bode well for domestic cement manufacturers

Vietnam's total cement and clinker sales expanded by 0.9 per cent YoY in 2020 to 97.5Mt, according to FiiinGroup. Of this total, domestic cement consumption was 62.1Mt, declining by 5.6 per cent YoY. Meanwhile, clinker and, in particular, cement exports remained strong, surging by 14.9 per cent compared to a year earlier.

The deceleration in domestic demand could be explained by the negative impact of COVID-19. Construction activities were disrupted due to stringent government measures to contain the spread of the

virus, while real estate developers were reluctant to launch new projects given the negative market outlook.

Following subdued construction growth in the first half of 2020, the industry was showing signs of regaining momentum thanks to improvements in the disbursement of public investment funds in the 2H20. However, domestic cement demand stayed low and consumption declined over the full year.

Clinker, and especially cement, exports were strong thanks to rising demand from China and the Philippines.

In particular, clinker demand from China surged in the 3Q20 thanks to the recovery of the construction sector and cement prices in the country. Multiple local investment projects, especially large-scale infrastructure projects in the south of China including the interconnection of infrastructure in the Guangdong-Hong Kong-Macao Greater Bay Area and the Hainan Free Trade Port, started construction as the Chinese government put measures in place to support economic growth amid the COVID-19 pandemic. On the supply side, the Chinese government continued to follow restriction policies on cement factories in an effort to curb pollution in the country, resulting in a reduction of actual production and triggering Chinese buyers to source clinker and cement from Vietnam.

Meanwhile, cement demand in the Philippines was boosted by the government's "Build, Build, Build" infrastructure development programme. In addition, local Vietnamese cement manufacturers managed to diversify cement export destinations to other markets, including South Africa, Malaysia and the USA, contributing to significant growth in export volumes last year.

Continued development by private cement producers

Regarding the Vietnam supply side, there are 124 cement facilities belonging to 67 owners with a total cement capacity of 123.7Mta. During 2020 the FiiinGroup recorded the start of commercial operations at three new facilities – Tan Thang, Thanh Thang Assembly 3 and Long Son Assembly 3 – with a total installed cement capacity of 4.3Mta.

As observed by the FiiinGroup, a number of cement facilities by leading private manufacturers are under construction. In particular, many expansion projects are being developed by local private groups, including Vissai, Long Son, Thanh Thang, Fico-YTL and SCC-VN, and are expected to launch commercial operations in the next five years, boosting Vietnam's cement capacity to 149.3Mta by 2025.

Given the supply surplus, FiiinGroup foresees sector consolidation, especially for small-scale players that are operating at sub-standard utilisation rates of less than 60 per cent. In fact, local small-scale and some foreign-owned cement manufacturers, such as Chinfon and Luks, were operating at a utilisation rate of 60 per cent, while the state-owned Vietnam



Despite showing signs of regaining momentum in the second half, Vietnam cement demand fell by 5.6 per cent in 2020



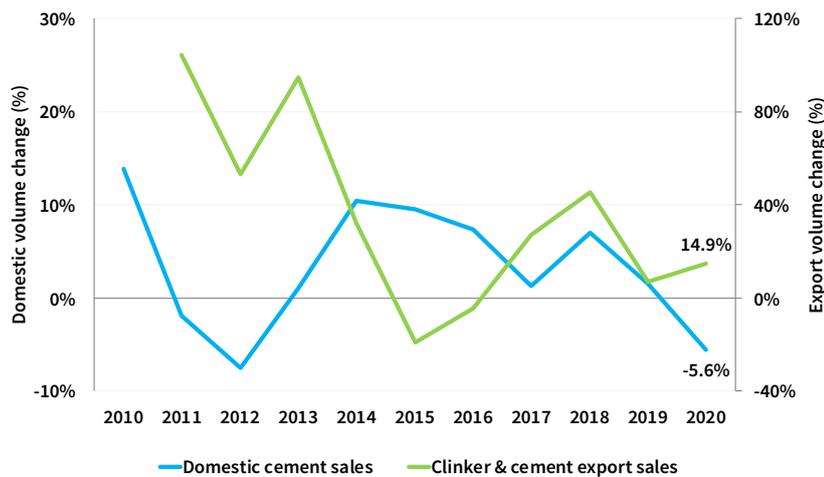
Clinker and especially cement exports were strong during the year



The increased disbursement of public funds and recovery in the real estate market are key drivers for domestic demand

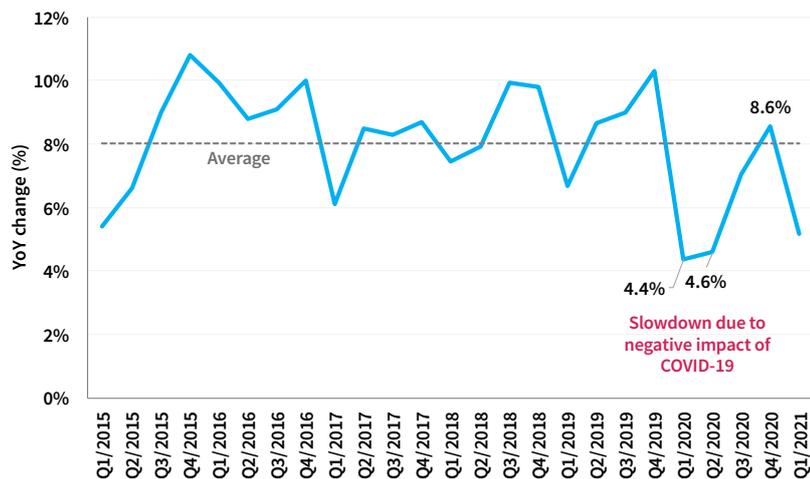


Figure 1: Vietnam cement and clinker sales volume growth, 2010-20



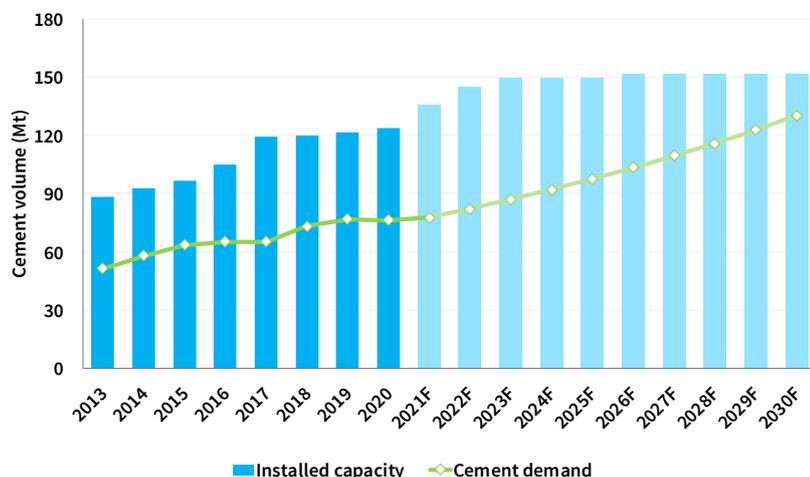
Source: FiinResearch

Figure 2: growth of Vietnam construction sector, 1Q15-1Q21



Source: FiinResearch, GSO

Figure 3: supply-demand forecast for the Vietnam cement market, 2013A-30F



Source: FiinResearch

National Cement Corp (VICEM) and leading private players such as Vissai and Long Son recorded a good performance with full utilisation rates of 100 per cent in 2020.

Amid COVID-19, leading private cement manufacturers are actively developing new facilities to fulfill rising demand from export markets as well as gain market share on the domestic front from small-scale manufacturers.

Deteriorated profit margins

Given the slowdown in Vietnam's domestic market in 2020, listed cement manufacturers recorded a deteriorated average EBITDA margin from 17 per cent in 2019 to only 15.8 per cent in 2020.

This could be explained by a 6.3 per cent slump in net sales due to low demand on the domestic market and a significant surge in coal prices which increased by 20 per cent (driven by rising demand from China and a reduction in production from major suppliers, such as Australia).

In addition, given fierce competition due to low demand, cement manufacturers incurred higher marketing and selling expenses to boost sales, contributing to lower EBITDA margins.

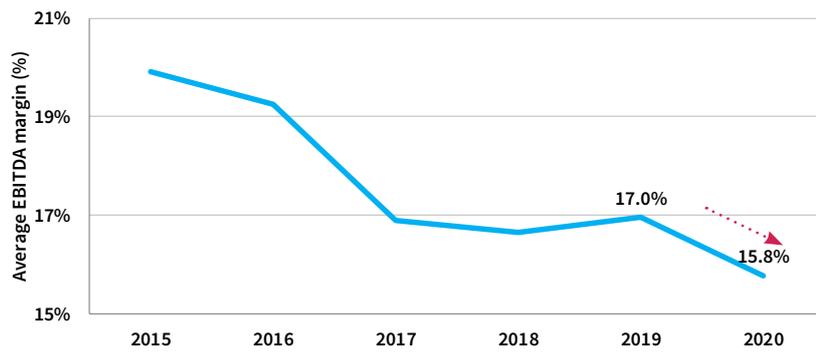
Moderate outlook for domestic markets, positive outlook for exports

The Vietnam cement market still presents growth potential for domestic cement manufacturers, given both the positive long-term outlook for the domestic market as well as the ability to export to overseas markets.

Even though domestic demand slowed in 2020 due to COVID-19, cement consumption in the long run is supported by local drivers. These include the government's commitment to boost public investment stimulus packages to reduce the impact of the pandemic on the economy and the recovery of Vietnam's real estate market including the residential, hospitality and industrial sectors.

The Vietnamese government is making efforts to boost the disbursement of public investments via the development of transport infrastructure, including expressways, airports and bridges. The government's public investment disbursement reached 82.8 per cent of the National Assembly's plan in 2020, which is far higher than the 62.9 per cent seen in 2019. In particular, on 12 March 2020 the government agreed in principle to convert three north-south expressway projects,

Figure 4: average EBITDA margin of listed cement companies in Vietnam



The analysis is based on the financial data of 10 listed cement manufacturers with over 90 per cent of revenue from domestic sales in 2020

Source: FinResearch

that were initially planned to be executed under a PPP model, to a public investment model to accelerate the disbursement of public funds and support economic growth. Given the recent improvement in public debt management, there is still room for the government to execute an expansionary fiscal policy to support economic growth.

Vietnam's real estate market has also shown signs of recovery thanks to effective government COVID-19 containment measures, especially demand for the mid-end and affordable segment as well as commitments by local authorities to accelerate the licensing process and solve legal difficulties faced by property developers.

"...cement and clinker exports will remain the key business strategy for leading private players..."

In terms of trading, the FiinGroup has assessed Vietnam's export outlook as positive. Given rising demand from "traditional" export markets, including China, Bangladesh and the Philippines, as well as efforts by local manufacturers in exploring new markets (ie, Africa and USA), cement and clinker exports will remain the key business strategy for leading private players such as Vissai, Thanh Thang and Xuan Thanh.

Cement and clinker demand from China is forecast to remain strong due to robust infrastructure development as its government looks to stimulate economic growth. Meanwhile, despite safeguarding measures from the Department of Trade and Industry in the Philippines, cement export volumes from Vietnam are forecast to remain strong thanks to robust infrastructure investment demand. ■



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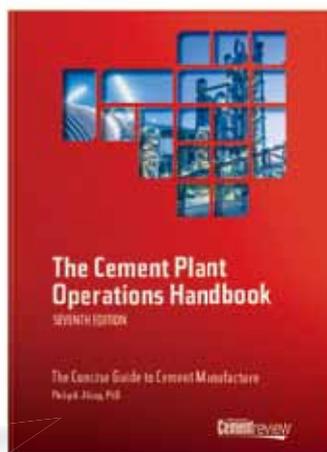
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