Cement production

Industry Report

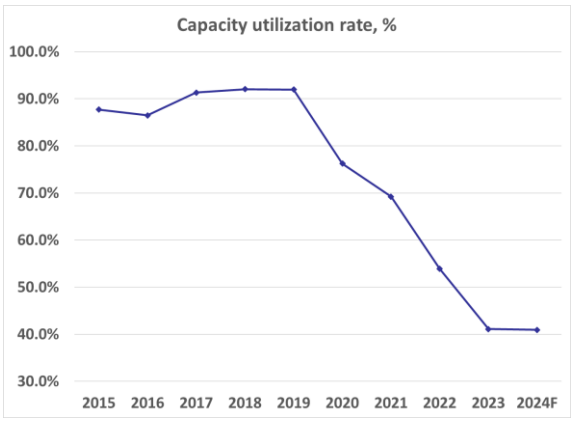
Review of Cement Industry of the Republic of Uzbekistan

Capacity, production and cement demand

The cement industry has undergone significant changes in recent years, marked by a notable increase in production capacity and moderate demand growth. Currently, 38 companies specialize in cement production, boasting a total capacity of 35.3 million tons per year—a 30.3% increase compared to 2022. With new plants under construction, this capacity is projected to reach approximately 41 million tons annually by the end of 2024. Of these, 14 plants have a capacity exceeding 1 million tons each.

Between 2016 and 2023, cement consumption nearly doubled, rising from 8.8 million tons to 16.8 million tons. During the same period, production capacity surged from 10 million tons to 35.3 million tons, a 3.5-fold increase. This imbalance between production capacity and demand has led to a significant reduction in the industry's utilization rate, now at an all-time low of around 41%.

CAPACITY UTILIZATION



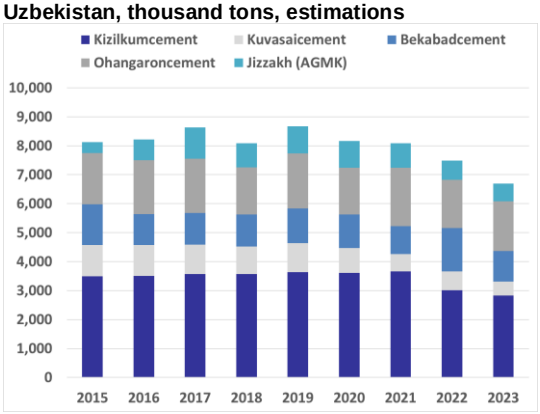
Source: Avesta Investment Group

The reduced utilization rates and excess capacity have adversely affected the margins of cement producers. As new production capacity becomes operational, these trends are likely to persist in the near term.

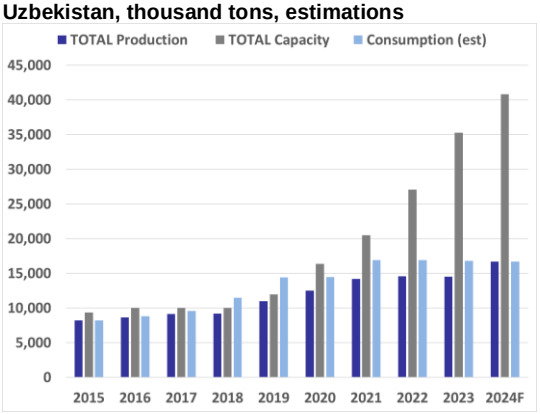
Despite early warnings from market participants and analysts regarding the oversupply issue and the consequent decline in profits, underfunding of maintenance, labor, and environmental protection since 2020-2021, the government only recently acknowledged the problem. In early 2024, the Minister of Ecology highlighted the excess production capacity and significant environmental violations by nearly 90% of companies. Proposed measures include a full moratorium on issuing new limestone deposit licenses and a minimum fine of 10 billion UZS (approximately $850,000).

Simultaneously, the government continues to push industrial companies, particularly cement and brick producers, to transition from natural gas to coal energy sources. This initiative appears inconsistent with the ongoing efforts to adhere to environmental policies and enhance energy efficiency targets. However, the growing energy shortages during winter and summer, coupled with a significant increase in natural gas imports in recent years, suggest that this might be a more pressing concern.

Production of cement plants (listed companies only) of Uzbekistan, thousand tons, estimations



Overall production, capacity and consumption of cement in Uzbekistan, thousand tons, estimations

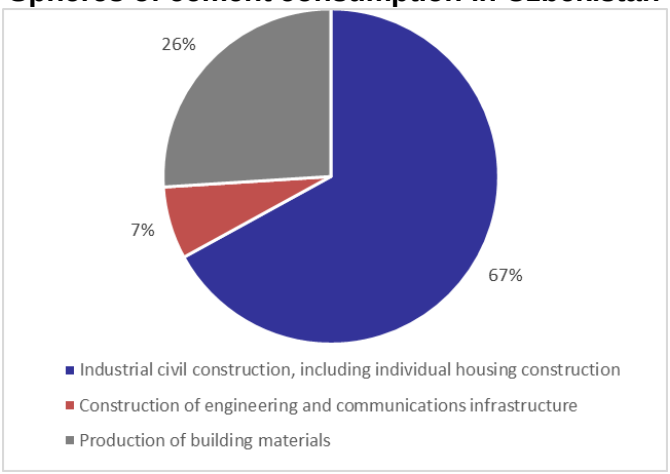


Source: mass-media, websites of companies, other open sources, Calcs: Avesta Investment Group

Overall production increased from 6.7 to 9.1 million tons from January to July 2024, representing a 35.8% increase compared to the same period in 2023. The Ministry of Economy and Finance predicts that in 2024, import volumes will decrease by 57% to 1 million tons, with domestic market coverage reaching 95%.

The total production volume of listed cement producers, as shown in the graph, amounted to 6.7 million tons, with an estimated total capacity of around 14.8 million tons. From 2020 to 2023, all five companies reduced production by 18%. The primary reason for this decline is the emergence of new plants in regions with more convenient transportation and lower associated costs.

Spheres of cement consumption in Uzbekistan



Source: mass-media, websites of companies, other open sources, Calcs: Avesta Investment Group

The main consumers of cement are the industrial and civil construction sectors, which account for 67% of total consumption. The production of building materials consumes 26%, while engineering and communication infrastructures make up the remaining 7%. The local construction materials industry offers more than 100 different types of cement products and is actively expanding into deeper processing and increasing the variety of dry-mixes and finishing materials.

We anticipate a continued stable growth in cement consumption due to the development of the private and residential construction sectors and growing investments in infrastructure. However, this demand growth is expected to positively impact cement prices only after a few years due to the significant available capacity and the government's focus on providing affordable housing and supporting the construction sector as a key driver of GDP growth. For instance,

according to a presidential decree from April 13, 2023, a zero customs duty rate will apply to cement imports until 2025.

Uzbekistan has experienced steady economic growth in recent years, driven by reforms, infrastructure investments, and diversification efforts. According to the World Bank and other financial institutions, Uzbekistan's GDP growth has ranged from 5-7% annually. In 2023, the economy grew by 6%, reaching approximately $90.8 billion. In the first four months of 2024, the growth rate was 6.2%.

Uzbekistan has been focusing on several major infrastructure projects to boost economic growth and improve the quality of life for its citizens, potentially increasing the share of cement consumption for infrastructure needs. Key areas of focus include:

1. Transportation:
    - Railways: Expanding and modernizing the railway network, including high-speed rail connections between major cities, with the first priority being the connection of the historical city of Khiva to the high-speed network for tourism purposes. The large-scale electrification of the 465.54-kilometer Bukhara-Urgench-Khiva section is underway. Once modernized, high-speed trains will cover the distance from Tashkent to Khiva in about six hours, compared to the current 13 hours. The project is funded by JSC "Uzbekistan Temir Yollari" and supported by soft loans from international financial institutions and foreign organizations;

    - Multimodal Transport Corridor: A project is being developed to create the "Uzbekistan-Afghanistan-Pakistan" multimodal transport corridor, spanning 760 km and connecting South and Southeast Asia with China, CIS countries, and Europe. This project is expected to reduce transit time and costs by 30-40%, with an estimated construction cost of $4.6 billion according to "Boshtransloyiha" JSC;

    - Airports: Modernization plans include the airports in Namangan and Bukhara. The reconstruction of Namangan's airport will increase passenger capacity to 1,000 people per hour. Additionally, a new airport in the Bukhara region, three times larger than the current one, is planned, with an estimated cost of $226 million;

    - Roads: Upgrading and expanding the road network to improve connectivity within the country and with neighboring countries. Between 2023 and 2026, Uzbekistan is implementing two main programs: the Bridge Rehabilitation Program and the Road Construction, Reconstruction, and Repair Program. In 2023, 312 billion soums have been allocated for road repair and construction projects under the My Road initiative, allowing citizens to propose road repairs in their mahallas.

2. Energy:
    - Renewable Energy: Investing in solar and wind power projects to diversify the energy mix and reduce dependence on fossil fuels. Currently, renewable energy sources account for about 10% of total electricity production, with ongoing investment programs aiming to increase this to 18% by the end of this year. By 2030, the goal is to raise the share of renewables to 40% by introducing 25 GW of solar power capacity;

    - Electricity Grid: Modernizing the national grid to improve efficiency and reliability of electricity supply, addressing losses in the grids that currently reach 14-16% of produced electricity.

3. Urban Development:
    - Smart Cities: Developing smart city initiatives to improve urban infrastructure, including waste management, water supply, and public transportation;

- Housing: Expanding affordable housing projects to accommodate the growing urban population. It is planned to commission at least 100,000 houses in 2024, with a 20% increase each year to sustain housing demand.

4. Water Management:
   - Irrigation Systems: Improving irrigation infrastructure to support agriculture and reduce water losses from 14 billion cubic meters to 10 billion cubic meters through channel modernization;

   - Water Supply: Enhancing water supply systems to ensure clean and reliable water for both urban and rural areas. Over the past six years, 31,000 km of drinking water supply and sewerage networks have been laid, and 1,200 water supply facilities have been built or repaired. As a result, clean drinking water has reached 6.5 million people for the first time.

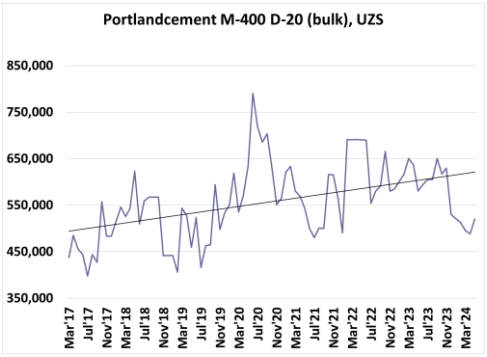
These initiatives are part of Uzbekistan's broader strategy to modernize its economy, attract foreign investment, and improve the standard of living for its people.

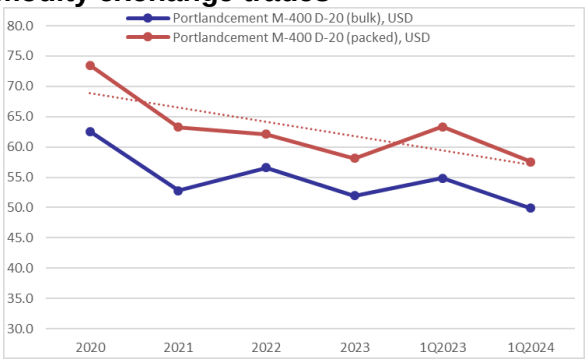
Cement prices

Local producers currently operate facilities capable of producing cement grades ranging from M-400 to M-600, offering products in both bulk and packaged forms. Prices typically fluctuate throughout the year due to seasonal factors in construction. However, the dry and warm climate in Uzbekistan has extended the active construction period to 8-9 months, mitigating some of these seasonal price changes.

From 2020 to the first quarter of 2024, USD-adjusted cement prices declined by approximately 20-22%. This price drop can be attributed to several factors, with the primary cause being market oversupply resulting from an imbalance between supply and demand. While demand grew organically by 15-16% anually, total production capacity more than doubled due to the expansion of existing plants and the introduction of new ones. The situation has been exacerbated by reported cases of price dumping by local plants controlled by Chinese investors.

Prices for cement at commodity exchange trades





Source: UzRTSB Commodity Exchange, Calcs: Avesta Investment Group

Another notable shift is the change in sales channels. The share of cement sold through the commodity exchange has decreased as previously state-owned plants are privatized and lose their monopoly status due to increasing competition. According to reports from the Uzbekistan Commodity Exchange (RSE: URTS), the total amount of cement sold in 2023 decreased from 6.9 million tons to 3.9 million tons. A significant portion of this decline is attributed to Qyzylkumcement JSC (RSE: QZSM), whose share of total traded cement dropped from 40% to 20%.

PEERS

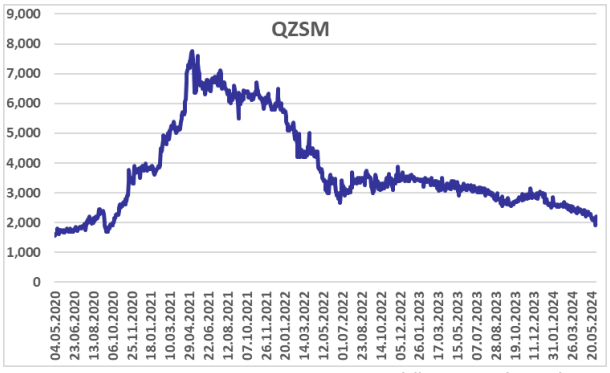
Financial analyses of peer companies confirm the continuation of negative trends in the industry. The average gross margin of companies fell from 44.7% in 2020 to 6.9% in Q1 2024. This decline is primarily due to lower cement prices and rising production costs, including higher energy prices, wages, and other inputs. Consequently, the adjusted average EBIT margin plummeted from a positive 16-17% to a negative 29%.

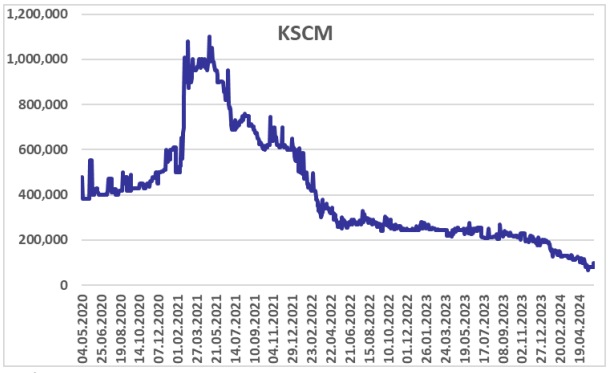
	Gross margin					EBIT margin (adj)					Tax/Revenues				
	2021	2022	2023	1Q2023	1Q2024	2021	2022	2023	1Q2023	1Q2024	2021	2022	2023	1Q2023	1Q2024
QZSM	37.2%	37.0%	45.1%	27.6%	31.2%	16.9%	21.7%	27.3%	11.7%	-1.3%	3.8%	3.5%	3.2%	1.6%	0.3%
BECM	30.0%	32.6%	36.7%	4.2%	-14.8%	7.7%	18.9%	21.2%	5.9%	-46.9%	2.2%	3.4%	3.3%	1.1%	0.0%
KSCM	39.6%	28.4%	30.0%	24.4%	8.2%	13.3%	8.7%	5.6%	-14.6%	-27.2%	3.8%	2.3%	1.4%	0.0%	0.0%
OHSM	47.3%	35.1%	33.3%	-22.9%	-31.5%	20.3%	12.4%	4.0%	-57.3%	-76.3%	5.4%	3.2%	2.9%	0.0%	0.0%
Average	**39.1%**	**34.8%**	**39.0%**	**10.6%**	**6.9%**	**16.2%**	**17.7%**	**17.7%**	**-7.9%**	**-29.3%**	**4.0%**	**3.3%**	**3.0%**	**1.0%**	**0.2%**
	P/E					P/B					Mcap/t of capacity				
	2021	2022	2023	1Q2023	1Q2024	2021	2022	2023	1Q2023	1Q2024	2021	2022	2023	1Q2023	1Q2024
QZSM	12.74	5.23	2.81	4.62	2.59	1.29	0.61	0.44	0.60	0.37	$79.8	$26.2	$20.8	$25.6	$16.5
BECM	7.55	1.17	1.36	1.27	1.09	0.54	0.31	0.26	0.29	0.16	$18.0	$8.4	$8.0	$8.2	$4.5
KSCM	6.11	3.11	6.69	3.16	8.61	0.63	0.23	0.19	0.21	0.11	$26.4	$10.4	$7.8	$8.9	$4.2
OHSM	11.52	14.72	24.22	75.13	28.11	1.12	1.16	1.12	1.24	1.23	$74.3	$33.7	$31.7	$32.8	$29.8
Average	**9.48**	**6.06**	**8.77**	**21.04**	**10.10**	**0.89**	**0.58**	**0.50**	**0.59**	**0.47**	**$49.6**	**$19.7**	**$17.1**	**$18.9**	**$13.8**

Source: Single Portal for Corporate Information Disclosure, Calcs: Avesta Investment Group

The tax-to-revenue ratio is also decreasing as companies with net losses are exempt from paying taxes. The price-to-earnings (P/E) ratio for listed companies increased from an average of 4.2 to 21 during the 2020-2023 period before dropping to 10.1 in Q1 2024. These fluctuations largely reflect changes in the stock prices of these companies, which peaked in mid-2021 before reaching their lowest levels in 2024.

The subsoil tax introduced in 2022 for cement producers was first reduced from 22,500 UZS to 11,250 UZS per ton of limestone at the beginning of 2023 and then further decreased to 6,000 UZS by the end of 2023. Despite the government still receiving significant revenue from these payments, profit tax contributions have nearly vanished. While it's challenging to assess the overall economic impact of the cement industry on national growth, it's clear that the sector is unlikely to attract substantial investment in the near future unless there is significant internal consolidation.





Source: Republican Stock Exchange, Calcs: Avesta Investment Group

Currently, the market capitalization per ton of production capacity is at its lowest point, dropping from $49.6 per ton in 2021 to $13.8 per ton. This decline reflects the prevailing investor pessimism regarding the industry's prospects.

Contact Information

Avesta Investment Group LLC

Postal address: 22, Shahrisabz str., 100 015, Tashkent, Uzbekistan
7th floor, office 716
E-mail: info@avestagroup.com
Internet: http://www.avestagroup.com

The information and opinions in this report were prepared by Avesta Investment Group or one of its affiliates (collectively "Avesta"). The information herein is believed by Avesta to be reliable and has been obtained from public sources believed to be reliable, but Avesta makes no representation as to the accuracy or completeness of such information. Important Information Regarding Our Independence. The research analysts responsible for the preparation of this report receive compensation that is based upon, among other factors, Avesta's overall revenues. Avesta may engage in securities transactions in a manner inconsistent with this research report and with respect to securities covered by this report, will sell to or buy from customers on a principal basis. Disclosures of conflicts of interest, if any, are discussed at the end of the text of this report or on the Avesta Investment Group's website at http://www.avestagroup.com. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Avesta and are subject to change without notice. Avesta has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results. Unless governing law provides otherwise, all transactions should be executed in the investor's home jurisdiction. Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Avesta prior written consent. Please cite source when quoting.

© 2003-2024 «Avesta Investment Group».