Heavy construction material (HCM) volume showed a mixed performance across regions in an otherwise positive environment. Volumes grew in North America (particularly in cement) on the back of growth in residential and non-residential construction. However, the boom was offset by a decline in demand in Europe. A recovery in the Eurozone economy remains patchy and there have been either cancellation or postponement of many building and infrastructure projects. Efforts to revive economies from the downturn have not translated into demand for construction materials yet in most of the countries.

Margins have improved overall, driven by strong cost cutting, restructuring and efficiency-improvement initiatives. The industry has been witnessing a number of transactions, mostly triggered by the intended global Holcim-Lafarge merger and the shift in industry cycles in some countries. For instance, CRH purchased the bulk of divestments – assets in 11 countries across 4 continents.

In the US, total construction was boosted by private construction investments helped further by public construction spending. The US Government has stepped up measures to stimulate construction activity by introducing new infrastructure bonds, apart from providing funding for refurbishing existing infrastructure.

Quantitative easing by the European Central Bank (ECB) and falling oil prices gave the much-needed push to European economies. The reduction in oil prices is expected to translate into improved household savings and increased consumer confidence. The CIS economy is yet to recover from the Russia-Ukraine turmoil and is dependent on infrastructure development in the region and the necessary funding.

Emerging markets, including China, India, Southeast Asia and Latin America, continue to face a slowdown in construction sectors. Nevertheless, the economies exhibit a positive outlook in the medium-to-long term on the back of increase in disposable income and growing middle-income class. This is expected to boost demand for construction and balance the existing situation of excess supply of HCM (such as cement) in many countries.
Market fundamentals

Volume trends

The quarter ending March 2015 witnessed mixed performance in HCM volumes, impacted by weather events and economic activity in major regions.

In North America, 1Q15 was affected by seasonal inclement weather, though not as severe as 1Q14. Strong private residential construction offset the effects of bad weather in the first quarter, as HeidelbergCement and Holcim reported an increase in cement volumes (of 2% y-o-y and 4.3% y-o-y, respectively).1 The North and West regions did better than the South region and Canada, where lower oil prices led to weak demand from the oil sector.

In Canada, Quebec and the Atlantic region were particularly hard hit due to harsh weather. CRH’s Americas operations reported strong demand, with aggregates volumes up 11% in the first four months compared with the same period last year. Cemex reported flat cement volumes for 1Q15, but a 15% y-o-y and 3% y-o-y increase in ready-mix and aggregates volumes, respectively.2 The company reported poor demand due to lower oil cement demand and poor weather conditions in its markets. For Lafarge, cement volumes declined in the US (down 4% y-o-y) but improved (up 5% y-o-y) in Canada. Buzzi reported an increase of 2.8% y-o-y in cement sales, despite a significant drop in the deliveries of oil-well cements. Italcementi reported flat volumes due to harsh winter conditions. All cement companies reported an increase in realized prices in the US, primarily due to foreign exchange effects.

In Europe, many industry players struggled to grow sales volume, as the general economic deterioration affected infrastructure financing and led to cancellation or postponement of non-residential building projects. Holcim reported a circa 10% y-o-y fall in cement volumes, but an increase of almost 11% y-o-y in aggregates. HeidelbergCement reported a decline of 4.1% y-o-y in cement and clinkers sales volume in the Western and Northern Europe group, and flat building material volumes as sales were impacted by varying weather conditions across the regions. Cemex reported an increase of about 2% y-o-y in cement volume, but a decrease of 15%-20% y-o-y in ready-mix and aggregates volumes.

CRH reported improving demand trends in the first four months of 2015 compared to the same period in 2014. Buzzi’s Eastern Europe numbers benefitted from the consolidation of its Korkino plant, while its Central European operations reported lower volumes.3 Italcementi forecast lower volumes and realized prices for 2015 compared with 2014 in Italy and France, but higher volumes in Spain and Greece.4

In Asia-Pacific, Cemex and Lafarge reported higher volumes and sales, respectively, but Holcim and HeidelbergCement reported lower volumes in 1Q15. Cement volumes for Cemex grew in double digits due to solid performance in the Philippines. Sales at Lafarge grew by 24% y-o-y bolstered by favorable exchange rates and improved volumes across all major markets, except Indonesia. Holcim reported a fall of about 7% y-o-y in cement volumes in Asia-Pacific, due to lower demand in India and Indonesia. HeidelbergCement reported a fall of 3.9% y-o-y in cement and clinker deliveries.

In Latin America, y-o-y cement volumes declined for most major cement players in 1Q15, with the exception of Cemex, which reported an increase of 13% y-o-y in cement volumes in Mexico. The company, however, reported a decline of 5% y-o-y in South and Central America and the Caribbean region. Holcim reported a fall of 1.4% y-o-y in volumes, primarily due to declines in demand from Ecuador and Brazil, despite increases in demand in Mexico, Argentina and Central America. Lafarge reported a 9% y-o-y drop in volumes, with its results also impacted by the divestment of Ecuador operations in November 2014.

The MENA region witnessed muted demand in a number of regions due to political instability and the Ebola outbreak in West Africa, and bad weather in Lebanon. Holcim reported a decline of about 8% y-o-y in the MENA region. Lafarge reported a 6% y-o-y decline in cement and a 1% y-o-y increase in aggregates, impacted negatively by transport limitations in Iraq and the suspension of its operations in Syria. Cemex reported a decline of 12% y-o-y in Egypt due to unusually rainy and cold weather conditions in the region.

Margins

Major industry players continue to optimize their portfolios and adopt cost-cutting measures and process improvement innovations. These innovations include low-energy solutions such as fan efficiency improvement, the use of alternate fuels such as municipal waste, and the use of lean or efficient operations such as power optimization of vertical roller mills.

Holcim sold its entire remaining shareholding in Siam City cement in Thailand and also closed its series of transactions with Cemex in Europe. CRH continued to make progress in divestments (disposals of €0.54b in 4M15) and its cost reduction program. Cemex announced the creation of Cemex Energia, a portfolio of power projects in Mexico that aims to supply about 3%-5% of Mexico's electricity needs over the next five years.

Some companies, such as Italcementi and Lafarge, also reported significant amounts of carbon gains in 1Q15. On average, companies reported EBITDA increases on a like-for-like basis in 1Q15 compared with 1Q14. HeidelbergCement (+29%) and Buzzi (+78%) reported the largest increases, whereas Italcementi reported a 33% decline in its EBITDA.

Lafarge-Holcim merger and divestment of assets to CRH

The ongoing merger of Lafarge and Holcim, which would create the largest global cement firm, has made the maximum contribution to global transactions in the last six months. After gaining clearance from the competition authorities in many countries, the merger achieved two significant milestones it received the approval from the European Commission (EC) and a binding agreement for the sale of a substantial portion of assets marked for divestments to CRH.

The transaction with CRH entails the merger of cement (36MTPA), aggregates (79MTPA), ready-mix (10m³) and related assets in seven European countries, the US, Canada, Brazil and the Philippines. The deal size is EUR6.5b, made at an estimated EV/EBITDA of 8.7x. CRH plans to fund the deal through debt (EUR2.9b), equity (EUR1.6b) and cash on balance sheet (EUR2.0b).

The European Commission has also given clearance to the acquisition. All of the parties stand to benefit from the deal, as follows:

- For Holcim and Lafarge, the divestment was a pre-requisite for the merger to receive clearance from the EC and other countries; the deal enabled the companies to divest their assets at a fair price.
- For CRH, the acquired assets reinforce its market position in important regions, establish leadership in new markets and create a platform for further acquisitions.

HeidelbergCement sold building products division Hanson to Lone Star

HeidelbergCement entered into a definitive agreement with an American affiliate of Lone Star Funds to sell its North American (excluding Western Canada) and UK building products business Hanson Building Products, for an aggregate purchase price of USD1.4 billion. Up to USD100 million will be payable in 2016, depending on the performance of the business in 2015.

The sale is consistent with the HeidelbergCement's strategy of focusing on processing and refining raw materials for its core products of cement and aggregates and further downstream activities. Hanson's portfolio of bricks, pressure and gravity pipes and precast is outside the core businesses. The company plans to use the proceeds to accelerate paying down the debt. This is Lone Star's second purchase of a building products firm after Continental Building Products Inc. from Lafarge North America Inc. for USD700 million in June 2013.

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5. “Global Cement Q1 Highlights,” Jefferies, 11 May 2015, via Thomson Research
6. “Lafarge,” Kepler Cheuvreux, 18 February 2015, via Thomson Research
7. “CRH to acquire all Lafarge / Holcim assets for EV of €6.5bn,” UBS Research, 2 February 2015, via Thomson Research
8. “CRH,” Investec, 3 February 2015, via Thomson Research
Market outlook

In 2015, cement volume is expected to increase across all major regions, except Europe, where growth would be largely flat. In the US, housing recovery is expected to continue, and government financing would be in a better position than in the past. Both commercial real estate investment and public construction are expected to make positive contributions. In Europe, particularly in the UK, key sectors such as private housing and commercial real estate, as well as large infrastructure projects, will continue to recover. Russia and Azerbaijan, on the other hand, may slow down the pace of the region’s economic recovery due to weak public and private investment in buildings and infrastructure.11 Demand for HCM in emerging markets is expected to improve in 2015, driven by stable macro-economic indicators.

Country update

The US

In the first three months of 2015 (3M15), construction spending in the US amounted to USD206.7b, up 3.2% y-o-y. During this period, private construction spending (residential and commercial) increased by 3.7% y-o-y, and public construction spending increased by 1.7% y-o-y.12

The increase in construction spending was primarily driven by strong non-residential demand in both public and private sectors. Non-residential construction spending grew by 4.4% y-o-y to USD131.2b in 3M15 and private residential spending increased by 0.9% y-o-y to USD74.3b.13

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<th>US construction spending growth rates for 3M15</th>
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<tr>
<td>Total</td>
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<td>Private</td>
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<td>Non-residential</td>
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Source: US Census Bureau

The fierce winter weather impeded the progress of housing projects, particularly in the Northeast and Midwest. The rise in residential building permits suggests that there are no real problems with the housing market. It is possible, however, that the slowdown at the West Coast ports (due to labor dispute) may have hampered construction materials shipments and, therefore, progress of projects.14

The US Government has proposed to introduce tax-exempt Qualified Public Infrastructure Bonds (QPIBs), a new class of municipal bonds, to spur private investment in public infrastructure projects. QPIBs would extend the benefits of municipal bonds to public private partnerships, such as those that involve long-term leasing and management contracts, thus lowering the cost of borrowing and attracting new capital.15

The move comes as part of a larger initiative to revive the nation’s infrastructure by bridging the funding gap of USD1.6b in its infrastructure development and maintenance program during 2014 – 2020.16 In response, the US Government has begun taking measures to put the necessary funding in place. The Highway Trust Fund, which has nearly exhausted its reserves because taxes on gasoline and other fuels have not kept up with spending, is being revitalized with a fresh funding of USD10.8b. The funding is required to upgrade the country’s infrastructure needs, including for mass transit systems and repairs to bridges and highways.17

Europe

After a difficult second half of 2014, the Eurozone was in need of an encouraging start to the new year. EY forecasts Eurozone GDP to grow by approximately 1.5% in 2015 and 1.8% in 2016. This would be driven by deteriorating oil prices (which hit a six-year low in January 2015), the European Central Bank (ECB) quantitative easing (QE) program, weakening of the euro and falling bond yields. The falling oil price will eventually translate into fuel savings for households throughout Europe, adding to consumer confidence, which is already on recovery mode after unemployment stabilizing. The QE program has helped allay fears of deflation and has bolstered confidence. 18

Germany

After growing 1.6% in 2014, EY forecasts the German economy to expand by 2.2% in 2015 and 2.0% in 2016. The 0.2% decline in 2014 GDP gives a misleading picture of underlying conditions, which will deteriorate further if the Ukraine crisis worsens. 19

The German Government has adopted a balanced 2015 – 2018 federal budget, where it plans to increase spending on transport infrastructure to EUR11.9b. Furthermore, Deutsche Bahn has announced a EUR28-b spending plan spanning up to 2019 to improve the rail sector’s performance. The IMF has urged the German Government, which has a fiscal surplus (EUR18b in 2014), to increase infrastructure investment until 2017. 20

The German Construction Industry Association expects slower growth of real estate construction. This is on account of a slowdown in demand, particularly as the uptake of homes in the upper price segment seems to have reached its saturation. The association expects 230,000 homes to be built in 2015, against 210,000 in 2014. This supply is not enough to eliminate housing shortage in Germany’s metropolitan areas. 21

France

Although the French economy stuttered at the end of last year, GDP growth would gain momentum gradually, EY forecasts GDP growth of 1.2% y-o-y in 2015 and 1.7% in 2016. Household spending is set to be the main pillar of the recovery, sustained by low inflation and a sharp fall in oil prices. 22

The country’s residential real estate market is not particularly attractive to investors. This would translate into subdued growth, as investment flows will likely remain low. The bad shape of the banking sector, tightening borrowing conditions and the declining purchasing power of French households further worsen the situation. 23

In the infrastructure sector, the French Government has endorsed public-private partnerships and has provided concessions for major transport infrastructure projects. Between 2012 and 2020, projects with a combined value of EUR30b are in the pipeline. The UEFA Euro 2016 Football Championship, which would be hosted by France, is expected to present new opportunities for infrastructure and real estate developers. 24

Italy

EY expects Italy’s GDP to recover at 0.3% y-o-y in 2015, after three consecutive years of economic recession, and gradually pick up to 1% in 2016, driven by increase in private consumption and net exports. However, investment flows will only start to increase in 2H15. The Italian Government could gain some fiscal leeway from lower government bond yields following the announcement of the ECB’s QE program. 25

The outlook for the Italian housing market is not encouraging, with prices continuing to fall in light of a weak rental market, high unemployment and relatively poor labor market conditions, as well as restricted access to credit. 26

Italy is implementing a EUR80-b infrastructure investment plan for 2013 – 2015. Along with this, the recently announced Unblock Italy economic stimulus package further proposes to invest EUR10b in infrastructure. 27 Key projects include Italy’s EUR3-b high-speed train networks to airports in Rome, Milan and Venice. 28 Real estate investors have also welcomed three measures: a pledge to increase flexibility of lease agreements, simplification of real estate investment trust structures and boost to non-bank lending. 29

Poland

In 2014, 168 bankruptcies were reported in the construction sector, 21% lower than 2013 levels. EU subsidies have been successful in reducing risk level in the construction sector.

The country has been the largest beneficiary of EU funding over recent years, with a substantial portion allocated to infrastructure improvement, in line with stated EU goals of improving integration and cohesion among the region's transport and energy networks. One of the key beneficiaries of the EU's funding of EUR105.8b to Poland is infrastructure.30

In 2012, the Polish Government committed to build 700km of new highways and 1,200km of expressways, including the S-5, S-8 and S-17 expressways (currently under development). The second half of 2014 and early 1Q15 have been particularly active for the roads subsector. Many contracts were awarded for road projects, including the EUR239-m development of the 18.4-km section of the S7, the EUR113-m development of a 15-km section of the S5, the EUR200-m development of a 15-km section of the S8, and the EUR135-m development of a 14.4-km section of the S3. Other key infrastructure projects include the USD1.4-b ring road and USD1.1-b second metro rail link in Warsaw.31

Spain

The economy is expected to grow by 2.4% in 2015 and 2.5% in 2016, outperforming most of the Eurozone countries. Growth would be driven by reduction in unemployment and growth in exports. The business environment would be encouraging for attracting inward investment. The Spanish Government's fiscal position remains precarious. While elections in December 2015 could see a pause in austerity measures, these will likely be directed to a more populist agenda such as tax cuts and social spending.32

The nascent recovery expected in Spain's construction industry from 2015 onward would be primarily driven by the residential sector. Permits for housing construction have witnessed positive growth in Q2 and Q3 of 2014, indicating a boost to construction projects in 2015.33

The Spanish Government has been encouraging private investment in critical infrastructure sectors such as railways. It plans to offer access to up to seven high-speed train Alta Velocidad Española (AVE) routes to private bidders, to be operational from 2015 onward. It has also approved selling its 49% stake in the national aviation authority, AENA.34

The UK

The UK's GDP is expected to grow by 2.4% in 2015, driven by growth in household expenditure, following rapid recovery in the labor market. The economy is showing strong signs of recovery from the recent recession and holds the top position in Europe for FDI.35

The construction industry grew by 4.3% y-o-y in 2014, and it is expected to grow by 3.5% in 2015, driven primarily by the residential sector aided by reforms to stamp duty. The new stamp duty system will see the majority of home buyers paying significantly less tax on the purchase of a property and has already seen property prices increase in parts of the UK, which will further incentivize developers. The second half of 2014 witnessed significant growth in property transactions outside the capital as the UK’s economic recovery started to balance out and gain traction across the wider regions. The nonresidential sector, particularly the retail and office segment, is expected to make a greater contribution in the future. In the 2015 budget, the UK Government announced to give first-time home buyers a GBP50 contribution for every GBP200 saved toward a home deposit, up to a maximum of GBP3,000.36

In infrastructure, the 2015 budget unveiled GBP7b of transport investment in the South-west, including upgrades to the First Great Western rail line that links London with Bristol, Paignton and Penzance.37 The National Infrastructure Plan 2014 set out an investment to the tune of GBP15b for transport infrastructure, which would add 1,300 new lane miles on motorways and trunk roads.38 In the long term, major projects worth more than USD190b are expected to be initiated after the 2015 general elections.39

CIS countries

The ongoing standoff in Ukraine between Russia and the West continues to be a threat to CIS regions' construction sector. However, this may not materially impact European cement and building material companies. This is because most of them have limited exposure to the region, barring companies such as Eurocement (40MTPA), Holcim (7.8MTPA), Lafarge (4.8MTPA) and Buzzi Unicem (4.5MTPA).

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Russia

The impact of weakening macroeconomics has started taking a toll on infrastructure projects. Aging infrastructure, rising wages and relatively low levels of cement consumption (488kg per capita) highlight the potential for construction growth and, in turn, increased HCM demand. However, the construction industry is exposed to economic challenges due to the EU’s sanctions. The industry is expected to decline by 5.4% y-o-y in 2015, as the sanctions will limit the country’s access to capital for infrastructure projects and deter private investment. In the longer term, Russia may find an alternative source of funding for its infrastructure from the newly established USD100-b BRICS bank, scheduled to start lending in 2016.40

In preparation for the 2018 FIFA Football World Cup, Russia has started to announce major transport infrastructure projects. These include the construction of USD68-b high-speed railways to and from Moscow, and another USD20b, along with subsidies worth USD150m, for the development or refurbishment of large stadiums.41

The Federal Government has planned to spend USD4.5b per year for developing Crimea’s transport, energy and water infrastructure. However, after the passing of the EU’s economic sanctions, many projects have been cancelled, including two recently awarded ones Taman port and Lena bridge. Additionally, as per the Prime Minister’s Far East development policy, RUB10t has been allocated, spanning 2011-2020, to expand infrastructure in the traditionally underdeveloped Far East region.42

The Russian Government has also announced an USD15.4-b budget to develop and modernize St. Petersburg’s residential buildings. As part of this, it will undertake the construction of 1,200 buildings for 450,000 residents in the next 15 years.43

Ukraine

The political situation in Ukraine remains highly volatile after Russia’s intervention in Crimea, with 2015 expected to be fourth consecutive year of decline. Political and security unrest in the country continues, and the impact of the ceasefire, agreed in February 2015, still has to play out. This has worsened the economic situation, and the economy may decline by 5.2% y-o-y in 2014. Uncertainties regarding the security situation would hinder investment flows, both foreign and domestic. Very few infrastructure projects were announced in 2014, with ongoing projects suffering from investment uncertainty due to severe fiscal issues. The country has turned to the IMF and other countries for financial aid. The European Investment Bank (EIB) has provided a EUR200-mn loan for the rebuilding of roads, hospitals, railways, bridges, damaged public buildings and other social infrastructure. The loan is part of a EUR3-bn support package aimed at redeveloping the conflict-damaged eastern areas of the country.44

Kazakhstan

The Kazakh construction sector grew by 4.3% y-o-y in 2014. The trend would continue, as the sector is expected to grow by 3.2% y-o-y in 2015, driven primarily by private consumption. The slowdown in the industry is attributable to a weak Russian Rouble, spending cuts by the Kazakhstan Government and private funding shortages in the banking sector.45

Kazakhstan’s Government also plans to develop the USD10-b g4 golden city project in Almaty. This will entails residential, commercial, educational and entertainment developments.46 The 2017 expo in Astana is set to boost the construction industry, which is expected to be the center of the country’s residential and non-residential construction activity. A USD1.4-b mixed-use development Abu Dhabi plaza, spread across 50ha, is under construction and is planned to be completed by 2016. The Government plans to construct/repair 16,000km of national motorways by 2020, including the USD7.5b Silk Road project, across Kazakhstan connecting the Chinese and Russian borders.47

China

Economic growth began slowing down in 2014, with GDP growth set to slip to 6.8% y-o-y in 2015 from 7.4%.48 The deterioration can be attributed to excess capacity in the industrial sector, local government debt and a cooling property market. In addition, the Chinese Government plans to run its biggest budget deficit since the global crisis in 2015 to support spending.49

In 2014, value added in the real estate sector accounted 6.4% of the country’s GDP.50 The Chinese property market has experienced a steep slowdown over the past two years, and persistently weak prices continue to strain the already soft domestic demand. In February 2015, house prices in the major cities surveyed by the

50. “‘Stable running of property market can cushion pressure of economy adjustment’,” Xinhua’s China Economic Information Service, 19 March 2015, via Factiva © 2015 China Economic Information Service of Xinhua News Agency.
National Bureau of Statistics fell by 5.7% y-o-y on average. The People’s Bank of China has cut rates twice since November 2014 and has also eased the banks’ reserve ratio to starve off a hard landing for the economy.51

China’s developers, which are largely privately owned, are responding to weakening sales and rising inventories by slowing new construction: housing starts declined by 18% y-o-y during the first 2 months of this year.52 Consequently, China’s cement industry, which already has excess capacity, was ordered to halt new cement production capacity last year as demand did not keep pace.53

The looming capacity overhang in the industry is a major deterrent to growth. As a result, the Chinese Government has taken initiatives to strictly monitor new clinker capacity additions and is bringing in policies to accelerate capacity closure, including outdated and small/inefficient capacities.54 Supply-side measures from the Government, together with operational difficulties faced by cement producers, could result in the consolidation of the Chinese cement industry.

The construction industry is expected to grow by 6% in 2015, down from 7% in 2014. The downturn in the property market would be partially offset by China’s efforts to increase liquidity in the banking sector, ensuring sufficient funds for construction and infrastructure development. In October–November 2014, the National Development and Reform Commission (NDRC) approved 21 infrastructure projects costing USD138b, including 5 airport expansion in exports.

### India

The FY16 (ending March 2016) budget has given a major thrust to India’s construction sector, which grew by 7.6% in FY15. Outlay for infrastructure was increased by more than 100% to INR1.4t and for road by 50% y-o-y to INR450b in FY16. The new Government has relaxed environmental laws for major infrastructure and mining projects and has cleared the backlog of projects awaiting environmental approval. In addition, it introduced Make in India, an initiative aimed to build world-class manufacturing infrastructure to create employment, promote innovation and provide people with skilled jobs.56

Demand outlook for FY16 is favorable, given the economic agenda of the new Government, which focuses on the revival of infrastructure and investment spending. The FY16 budget has proposed the setting up of a National Investment and Infrastructure Fund (NIIF) with an initial corpus of INR200b. This would enable the trust to raise debt and, in turn, invest as equity in infrastructure finance companies.57 The Indian Government also aspires to provide a roof for each family under the “housing for all” by 2022 through completion of 20 million houses in urban areas and 40 million houses in rural areas.58

Cement prices are likely to increase by INR15 to INR20 per bag due to an INR100/ton increase in excise duty and 2.7% hike in rail freight in the FY16 Union Budget. However, demand for cement is poised to increase in FY16 on the back of growth in construction.59 The long-term potential of the industry has attracted foreign companies such as Holcim, Lafarge and CRH, which have entered in joint ventures (JVs) with local cement companies.60

### Other Asian economies

Other Asian economies, particularly Malaysia, Thailand, Indonesia and the Philippines, have significant capital spending plans to boost all types of infrastructure activity — starting from building new infrastructure to addressing transport bottlenecks and rebuilding disaster-hit infrastructure.

Malaysia’s economic growth would continue in 2015, driven by private sector investments, which have been growing at an average annual rate of 15% since 2010, with some support from expansion in exports.61 The Malaysian Government’s Economic Transformation Programme (ETP) and public-private partnership (PPP) projects will spearhead the majority of this growth. The ETP was formulated to elevate the country to a developed nation status by 2020. The key mega projects over the next few years include the mass rapid transit line II (MYR23b), light rail transit line III (MYR9b), Warisan Merdeka building (MYR3b), West Coast Expressway (MYR2.2b), Sungai Besi-Ulu Kelang elevated expressway (MYR4b) and Damansara-Shah Alam highway (MYR4b).62

59. “Cement may be dearer by Rs 15-20/bag after excise,freight hike,” The Economic Times, 1 March 2015, via Factiva © 2015 The Times of India Group.
In the Philippines, public construction declined in 2014, mainly due to underspending of the Philippine Government as a result of delays in infrastructure projects in relation to the Supreme Court’s decision declaring major provisions of the Disbursement Acceleration Program as illegal. In 2015, the construction industry has the potential to reach P1.7t if infrastructure projects are implemented seamlessly. The Housing and Land Use Regulatory Board has set a target to construct 1 million housing units by 2016. It has announced the building of more than 300 condominium projects in Metro Manila.63

Indonesia has launched its Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) 2011-25. Infrastructure development under the MP3EI will require an estimated investment of USD440b, including USD195b to upgrade the country’s transport network.64 However, there are concerns in the near term due to slower economic growth, tight mortgage lending and increased industry spare capacity. Cement companies in Indonesia may come under pressure, as increased costs and weak demand would impact profitability.

**Latin America**

Even as Latin American economies have a divergent pace of development, there is a common need to bridge the widening infrastructure gap. The region suffers from poor connectivity, and the highway network has become inadequate to cope with regular traffic. Latin American countries have a long-standing shortage of housing, mainly due to political uncertainties, poor project implementation and bureaucratic barriers. The pressing need for infrastructure development, which is essential for economic growth, presents a huge potential for demand growth in building products.

Note: Assessment of general infrastructure (e.g., transport, telephony and energy) in the country [1 = extremely underdeveloped – among the worst in the world; 7 = extensive and efficient – among the best in the world] through Executive Opinion Survey.


63. “Construction industry to reach P1.7 T this year,” The Philippine Star, 9 march 2015, via Factiva © 2015 Philstar Global Corporation.
Brazil
Brazil’s construction sector saw an overall contraction in 2014, as the industry suffered due to a subdued domestic economy and an uncertain political environment. The construction industry is expected to grow by 2.3% in 2015 and by 4.3% in 2016. Brazil is successfully running an infrastructure investment program under Programa de Aceleração do Crescimento (PAC), which entered its third phase in 2015. The country has also set up a USD235-b concessions program between 2015 and 2018. It entails a large number of transport construction projects being undertaken.65

Brazil will expand its low-income housing program Minha Casa Minha Vida by 350,000 units in 1H15 to alleviate the country’s considerable housing shortage. This will, in turn, boost investment within the sector.66 Furthermore, the Brazilian Government has stepped up infrastructure development for the 2016 Olympic Games. As a result, Brazilian oil output is expected to more than double over the next 10 years. This would help develop infrastructure, as well as industrial output and the purchasing power of consumers. These developments present huge opportunities for increased demand for construction materials.67

However, the recent negative verdict from the competition authorities poses a major risk. The country’s anti-trust watchdog CADE recently fined Brazil’s top six cement makers USD1.4b for fixing cement prices.68 The six producers – Holcim, Cimpor Cimentos de Portugal, Votorantim Cimentos, Camargo Correa, Itabira Agro Industrial and Cia de Cimentos Itambé – accused of cartel pricing accounted for about 90% of the market. The producers were also ordered to divest some cement assets, and they will face restrictions on financing from government-run banks.

Peru
The Peruvian construction industry grew by 6.8% y-o-y in 2014 on the back of high-value investment plans and a robust project pipeline. It is expected to grow further by 7.1% in 2015. The growth would be driven by development in infrastructure, supported by the growing tourism industry, rising investor interest and high value investment plans to bridge the country’s infrastructure gap, with a particular emphasis on the transport sector.69 The Peruvian Government has announced plans to co-finance 22 private infrastructure projects (15 are in the education and healthcare sectors) worth USD6.96b via its investment promotion agency, ProInversion. The plan also includes transportation projects such as the Lima Peripheral Ring Road, Tarma-La Merced highway, and the Central Economic Corridor.70

Colombia
The construction industry grew by 14% in 2014, and it is expected to grow further by 10.8% in 2015, supported by new government policies to improve the business environment, a strengthening PPP framework, and more diversified sources of project finance. New rules regulating tax changes, force majeure, land expropriation and environmental permits will significantly reduce the risk of investing in Colombia’s ambitious road infrastructure program. These measures will facilitate access to financing and will also strengthen the PPP model in the country.71

The Colombian Government plans to issue a decree that requires authorities to respond to environmental licensing requests within 70 days. This would help speed up the grant of environmental licenses for oil, mining, energy and infrastructure projects. There is a 90-day limit at present, but some companies have waited up to 19 months for an answer to requests.72

In November 2014, the Colombia’s economic and social policy council (CONPES) allocated USD8.6b to develop 8 highways, as part of the second wave of tenders under the USD25-b fourth generation (4G) highway program. In addition to government funds, pension funds, and multilateral agencies, the Colombian Government is considering financing its USD25-bn 4G highway program via banks, bonds and infrastructure funds.73

Mexico
In 2014, the Mexican construction industry expanded by only 2.0% due to the economic slowdown, which was mainly driven by weakening currency and historically low oil prices.74 Oil exports, accounting for nearly one-third of the Mexican Government’s revenue, were negatively affected by falling oil prices, which affected the trade balance and reduced projections for government revenue. Mexico’s peso fell by 13.1% during 2014.75

The sector is expected to recover in 2015 on the back of growth in the residential sector and an uptick in public and private infrastructure investment.

The USD594-b National Infrastructure Plan (NIP) outlines 743 projects to be developed between 2014 and 2018. The NIP will be primarily funded by the public sector through various mechanisms, such as additional revenues generated through tax

66. “Brazil expands low-cost housing program by 350,000 units,” Reuters News, 18 September 2014, via Factiva © 2014 Thomson Reuters
68. “UPDATE 2-Brazil fines cement firms $1.4 bln for price rigging, orders asset sales,” Reuters, 29 May 2014
72. “Colombia to Speed Environmental Licenses for Mining Project,” Tempo, 27 September 2014, via Factiva © 2014, PT Tempo Inti Media Tbk
73. “Colombia Infrastructure Report Q1 2015,” Business Monitor Intelligence, December 2014, via Business Monitor
reforms. The Mexican Government hopes that the private sector will account for 37% of the required investment. The NIP includes the development of the USD4-b Mexico City airport project, USD900-m container terminal in the Pacific coast port of Lázaro Cárdenas, USD452-m Atizapán-Atlacomulco highway and USD400-m Tuxpan-Tampico highway.76

Other Latin American countries

Other Latin American countries are also advancing major infrastructure projects. The USD5.25-b Panama Canal expansion project, which has been delayed to until 2016, is stimulating infrastructure investment in Panama. Chinese financing to the region rose to USD22b in 2014 (Argentina, Brazil, Ecuador, and Venezuela), up 71% from 2013. China has pledged USD250b for new infrastructure projects, including a rail system from Peru to Brazil.77

Robust infrastructure and housing construction is driving HCM demand in Latin American countries. However, much of this demand is presently being met via imports. Similar to Asia, rising inflation in the Latin American region is a major concern for industry players. Corruption and permitting delays are other concerns.

Cement consumption in key Latin American countries, in million tonnes, 2014 − 2016E


The Middle East and North Africa (MENA)

The infrastructure industry of the MENA regions offers robust growth opportunities, driven by high level of investment on a per capita basis. The MENA construction industry is forecast to grow at an average rate of 6% y-o-y to USD249b by 2018, from USD144b in 2013. Middle East construction orders have declined due to a steep fall in oil prices. The projects awarded in MENA (excluding oil and gas) in 2014 were worth USD154b, down 11% from 2013. The slowdown in project awards in Saudi Arabia (<47% y-o-y) was partially offset by positive construction activity in the UAE (11% y-o-y) and Qatar (26% y-o-y), as well as strong pick-up in award activity in Egypt (more than tripled from USD2.5b to USD9b).78

The planned project pipeline in MENA regions is expected to be worth USD916b over the next 5 years, representing a 26% increase on projects awarded in the last 5 years. Saudi Arabia (28%) and the UAE (20%) represent almost half of the planned pipeline. The UAE has registered the largest increase in the planned project pipeline, driven primarily by USD17.7-b Dubai Creek Harbour development and USD32-b expansion of the Al Maktoum international airport.79

The six Gulf Cooperation Council (GCC) states, also made up of Saudi Arabia, Kuwait, Bahrain, Qatar and Oman, are building national interconnected rail networks along their borders by 2020.80 Cement demand in the region is expected to be strong in medium term, supported by major events, including the 2022 FIFA World Cup in Qatar and the World Expo in 2020. In addition, high demand for affordable housing is expected to drive growth in the market. Saudi Arabia requires about 150,000 units every year to meet its housing shortage.81

Cement consumption in key MENA countries, in million tonnes, 2014 − 2016E


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81. “Global viewpoint: the cement industry in the Middle East,” WorldCement.com,
Emerging markets

- Lafarge SA signed an agreement to buy a 45% stake in its Chinese JV Lafarge, Shui On Cement, held by SOCAM Development Limited for USD328m. The JV produces 32MTPA in Yunnan, Sichuan and Guizhou and Chongqing City. This sale would allow Shui On to focus on its construction business and would make the JV a wholly owned subsidiary of Lafarge.82
- Holcim Limited has decided to exit Thailand’s second-largest cement producer Siam City Cement PCL by selling its 27.5% stake in the company, valued at USD843m.83
- Lafarge India plans to buy back a 14% stake from Barings Asia, which it had sold in May 2013 for USD265m. The move is part of the sale agreement signed by both the entities that clearly stated that any changes in shareholding structure will trigger the buy-back clause.84
- UltraTech Cement Limited signed an agreement with Jaiprakash Associates Limited to acquire two units of Jaiprakash in Madhya Pradesh at an enterprise valuation of INR54b (USD853m). The deal would enable UltraTech to consolidate its lead over the proposed combined entity of Holcim and Lafarge.85

Mature markets

- CRH signed a binding agreement with Holcim and Lafarge for the purchase of a package of assets for an enterprise value of EUR6.5b. The package consists of cement (36 MTPA), aggregates (79 MTPA), ready-mix (10 m³) and related assets in seven European countries, the US, Canada, Brazil and the Philippines. The acquisition would reinforce CRH’s market position in important regions, establish leadership in new markets and create a platform for further acquisitions.86
- Holcim and Lafarge have renegotiated their terms of merger after a divergence in the value of the two companies over the past year. The new exchange ratio will be nine Holcim shares for every ten Lafarge shares. In addition, Lafarge CEO Bruno Lafont takes on the role of Non-executive Co-chairman rather than CEO. The CEO is yet to be named.87
- Wolseley plc acquired a substantial shareholding in Luxury for Less Limited (trading as Bath Empire), an online bathroom retailer. The acquisition would enable Wolseley to strengthen its position in the UK business-to-consumer (B2C) online bathroom market.88
- HeidelbergCement AG sold its entire stake in building and products division Hanson Building Products in North America (excluding West Canada) and the UK to an American affiliate of Lone Star Funds for an aggregate purchase price of USD1.4b. As per their agreement, up to USD100m can be paid by 2016, depending on the performance of the business in 2015. This is in line with HeidelbergCement’s strategy of focusing on processing and refining raw materials for its core products of cement and aggregates and further downstream activities.89
- CRH plc has teamed up with Aboitiz Equity Ventures to acquire Lafarge’s local cement operations in Philippines, which includes four cement manufacturing plants and other assets.90

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84. “Lafarge India to buy back 14% stake from Barings Asia,” The Economic Times, 22 January 2015, via Factiva © 2015 The Times of India Group.
89. “HeidelbergCement to Sell North American, UK Building Units to Lone Star Funds,” Ma M&A Navigator, 26 December 2015, via Factiva © 2014 M2 Communications.
90. “CRH teams up with Aboitiz to acquire Lafarge assets,” The Irish Times, 15 May 2015.
Management moves

- Holcim Limited appointed Dominique Drouet as Area Manager for Africa Middle East and as member of senior management, replacing Javier de Benito. The company also announced that Jacques Bourgon, Head of Occupational Health and Safety, Senior Advisor to the CEO, and member of senior management has decided to leave the firm. Holcim Mexico announced the appointment of Rodolfo Montero as CEO, succeeding Eduardo Kretschmer.91

- CRH announced the appointment of Patrick Kennedy and Lucinda Riches as Non-executive Directors. The company also announced that John Kennedy and Dan O'Connor would step down from the board at the conclusion of the Annual General Meeting on 7 May 2015.92

- Vulcan Materials Company announced the appointment of Elaine Chao and Thomas Fanning to its board of directors, the retirement of Allen Franklin from the board and transition of its Executive Chairman Don James to Non-Executive Chairman.93

- HeidelbergCement AG announced the appointment of Dominik von Achten as deputy CEO. Dominik is currently responsible for the company's North American business.94

- Compagnie de Saint-Gobain announced the appointment of Alain Destrain and Pascal Lai to its board.95

- Holcim is reorganizing its group functions to increase the competitiveness of the Group at all levels, which will result in a net reduction of about 120 positions in Holcim Group functions in Switzerland.96

- Maeve Carton, currently finance director of CRH plc, will move on to a new strategic function to become group transformation director.97

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<th>Share price movements</th>
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<td>Name</td>
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<td>CRH Plc</td>
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<td>Vulcan Materials Company</td>
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<td>Martin Marietta Materials, Inc.</td>
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Source: Thomson Datastream, EY research


94. “HeidelbergCement appoints deputy CEO,” German Collection, 11 February 2015, via Factiva © 2015 All Data Processing Ltd.


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