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NEWS RELEASE

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R&I View: Cement Companies Enjoy Solid Demand
Eyes on medium to long-term growth strategies

In the wake of the novel coronavirus outbreak, the construction industry, the end-user of cement, has been forced to suspend some construction projects, such as public works and the construction of new hotels in the Tokyo metropolitan area. Because the suspension continued only from mid or late April to early May in many cases and did not occur extensively, however, domestic cement sales volume in April was 3.19 million tons, a year-on-year decrease of as low as around 7%. Since May, no particular projects have been cancelled or suspended. The coronavirus impact on domestic cement demand is limited, and therefore the creditworthiness of cement companies will unlikely be affected.

The domestic cement demand estimate for 2020 released by the Japan Cement Association on February 27 was 41 million tons, one of the lowest since 1990. That said, a plunge in demand from 2021 to 2022 is unlikely, given that general contractors have ample order backlog even after the completion of projects related to the Tokyo Olympics and Paralympics. While private demand for hotels and condominiums may decline due, for example, to a decrease in foreign tourists to Japan and deterioration in the job market, public demand is expected to increase in the context of building national resilience to address frequent natural disasters, among others. Accordingly, domestic cement demand is solid.

In the southwestern U.S., which accounts for a large proportion of the overseas business portfolios of Taiheiyo Cement Corp. (Sec. Code: 5233, Issuer Rating: A-) and Mitsubishi Materials Corp. (Sec. Code: 5711, Issuer Rating: A-), the production and shipment of cement and ready-mixed concrete have been continuing. The coronavirus impact on cement companies' overseas businesses has so far been limited. Even so, the implications of the coronavirus are observed for demand in countries that are not successfully containing the virus, such as the Philippines and India, and their neighboring countries. If local cement prices and export prices come under downward pressure in the event of a prolonged demand downturn, for instance, cement companies' earnings could be affected. R&I will keep an eye on developments.

Cement companies have been improving their revenue/expenditure structures through, among others, supply capacity reductions and the reinforcement of recycling businesses since around 2010. Thanks to this, along with a fall in coal prices since 2019, they are able to generate a certain level of profits, as long as domestic demand keeps hovering around 40 million tons. Specialized cement manufacturers, such as Taiheiyo Cement and Sumitomo Osaka Cement Co., Ltd. (Sec. Code: 5232, Issuer Rating: A-), have made progress in improving their financial bases, a factor that underpins their creditworthiness.

R&I has not changed its view that domestic cement demand will decrease on a moderate pace over the medium to long term. Since around 2018, cement companies have worked to raise prices in response to higher fuel, transportation and other costs, but have not delivered sufficient results. In February 2020, Mitsubishi Materials and Ube Industries, Ltd. (Sec. Code: 4208, Issuer Rating: A-) announced a planned integration of their cement and related businesses. R&I will pay attention to cement companies' medium to long-term growth strategies for rationalizing their businesses and increasing influence on price formation through industry reorganization, as well as for strengthening environmental measures and creating new earnings sources.

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