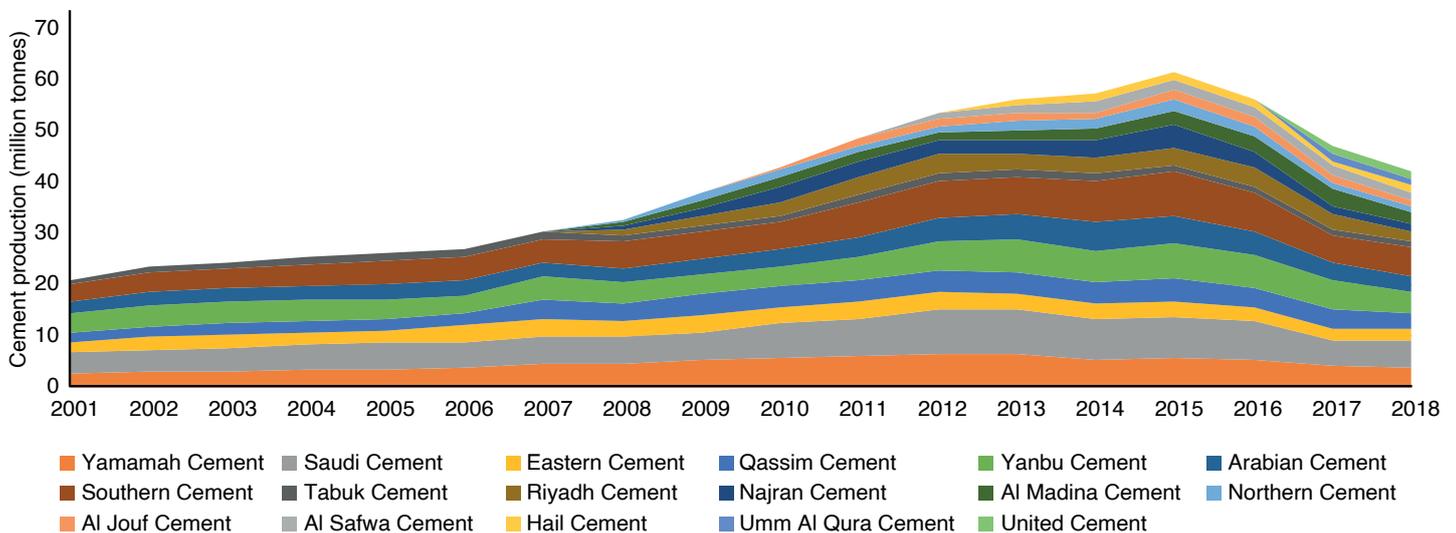


Data Insight

14/06/2020

Saudi Arabian Cement Companies: Upgrading Through Leveraging Overcapacity



Source: General Authority for Statistics, Saudi Arabia.

Context

The Kingdom of Saudi Arabia's annual cement production capacity of 72.4 million tonnes is the highest of any Gulf country. From 2001-2005, Saudi cement production grew at a compound annual growth rate of almost 8%. However, its annual production in 2018 of 42.2 million tonnes represented a drop of nearly 46% from its historical high of 61.5 million tonnes in 2015. Gradually, things seem to be turning around for the Saudi cement industry due to massive spending on mega projects, including new entertainment cities and coastal projects. Capacity utilization increased from Q2 2019 to Q1 2020, as exports and domestic consumption rose on the back of increased government spending. Monthly cement production in September 2019 was 3.71 million tonnes, an increase of 17.27% year-on-year.

As the cement industry grapples with overcapacity due to slowing demand, significant players within it have opted to use this capacity overhang to modernize and upgrade their production lines to more efficient ones, and install energy-saving systems such as waste heat recovery plants.

Key insights

- Increased domestic consumption from 2001-2007 and the slow rise of local capacity resulted in higher Saudi cement prices. This forced the Ministry of Commerce and Investment to impose an export ban on cement in 2008 in a bid to push down prices and increase its local availability. Demand slumped and capacity idled in 2016, and the government lifted the 2008 export ban in 2017. Cement exports have risen since mid-2017, with more than 25 million tonnes exported cumulatively from 2017 to 2019.
- Saudi Arabia had almost 43 million tonnes of clinker in 2019. This suggests that cement companies continued to produce clinker during times of slowing demand and, potentially, in anticipation of the government increasing domestic fuel prices.
- Companies such as the Yamama Cement Company have opted to utilize the market's current overcapacity to dispose of their old and inefficient production lines. This is to ensure that any new capacity is more energy efficient and market competitive. The Yanbu Cement Company demolished its old production lines in 2017 to focus on its more modern and efficient lines. Access to clinker stockpiles would mean that they would not lose any market share in the event of inefficient lines being dismantled.
- A reduction in government energy incentives since 2016 has meant that cement companies have had to explore alternative fuels to feed their kilns. Tire-derived fuel has emerged as an economical option for some cement companies. The reduction in energy incentives has also meant increases in transportation costs. Few companies have experimented with petcoke, as the high capital cost of feed equipment has stymied its widespread adoption.
- Increased clinker substitution, the installation of waste heat recovery systems, and energy savings through efficient production lines could translate into carbon dioxide emission reductions for the sector as a whole.

Access the related [dataset](#) from the KAPSARC data portal for further analysis. This KAPSARC Data Insight uses historical annual cement production data from the General Authority for Statistics, Kingdom of Saudi Arabia, and additional data from the public domain.

Source:

- [General Authority for Statistics](#)
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