14 December 2015 | Sector Update

Building Material: Cement

***Maintain* NEUTRAL**

Demand-supply gap to persist

INVESTMENT HIGHLIGHTS

- **Widening demand-supply gap may result in the moderation of average utilisation capacity of cement manufacturers from 25.5mt/yr in FY15 to 23.5mt/yr in FY16**
- **Decreasing trend in commodities price and availability of substitute supply of raw material will influence the average selling price of cement**
- **Lower average selling price of cement at an estimated range of RM241/mt to Rm250/mt for FY16**
- **Maintain NEUTRAL for both sector and Lafarge with TP of RM9.15 per share**

Demand-supply gap. The sector is expected to witness a stagnant growth especially in the supply of pre-mix cement and ordinary Portland Cement (OPC). A widening demand-supply gap may result in the moderation of average utilisation capacity of cement manufacturers from 25.5mt/yr in FY15 to 23.5mt/yr in FY16 from a total integrated capacity of 29.8mt/yr. Moreover, the year-to-date average utilisation rate of the 11 integrated cement manufacturers in Malaysia (inclusive of Aalborg cement plant in Ipoh) has decreased to 85% in 2015 from 95% in 2014. Additionally, the weakening sectoral growth will be further worsened by:

a) Increase the number of in-house premix cement and concrete plants by the construction companies, such as IJM Berhad and Gamuda Berhad, in order to reduce cost and control the concrete's mixture quality, and

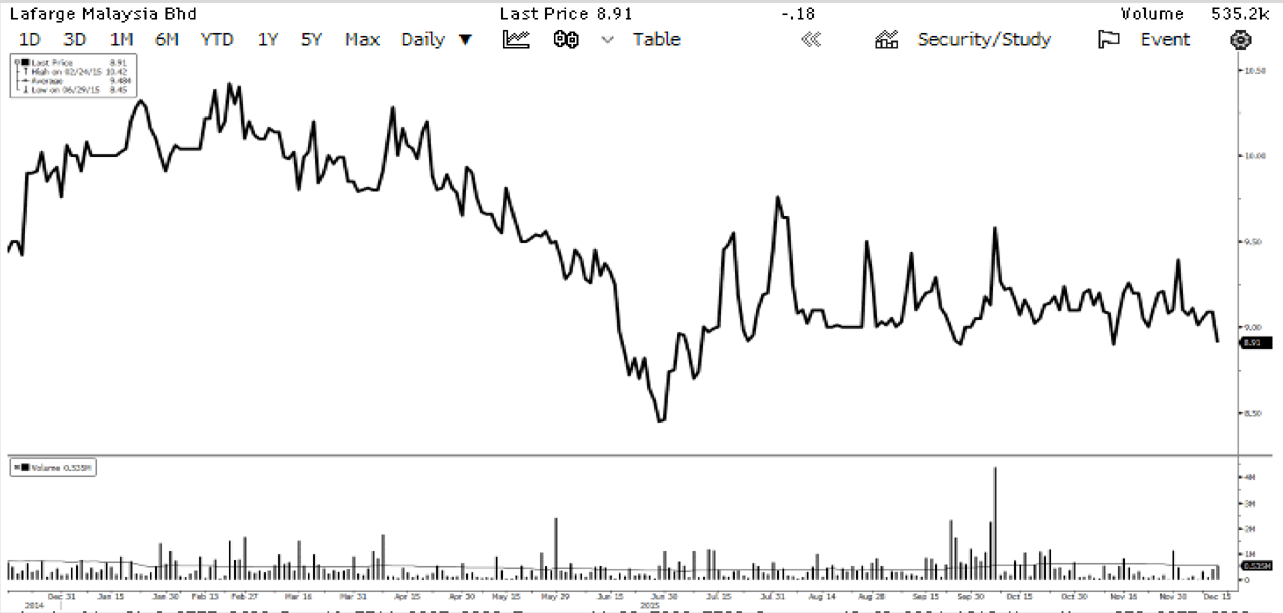
b) Intense pricing, product rivalries and entrance of various dry mix products.

Declining trend in commodities' prices. The cost of production will reduce with the declining trend in iron ore (USD57.4/mt,-34.15%YoY in TSI, IMF) and coal (USD55.89/mt,-16.61%YoY, Australia Newcastle Thermal Coal Index) commodities and increased supply of replacement raw material in Malaysia such as fly ash from Jimah, Manjung, Tanjung Bin and Kapar power plant. The downtrend in global coal and iron ore indices are indicative of the increased supply contributed by United States, Mongolia, China, Brazil, Australia, South Africa and India. The cratered commodities' prices are due to the stocking up of inventories by steel mills in China as well as power plants in India.

Lower ASP of cement. Hence, we lowered our estimate for the ASP of cement to a range of RM241/mt to RM250/mt for FY16 from RM270/mt in FY15 due to the declining price of raw materials.

Maintain NEUTRAL. Altogether, earnings are expected to remain sluggish. We reaffirm our NEUTRAL stance on both sector and Lafarge Malaysia with an unchanged TP of RM9.15 per share.

Exhibit 1: LaFarge Chart



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.