

BofA China Cement Outlook Indicator

All -ve sentiment amid cement & concrete producers despite seasonal pickup

Industry Overview

Seasonal demand pickup fails to boost sentiment

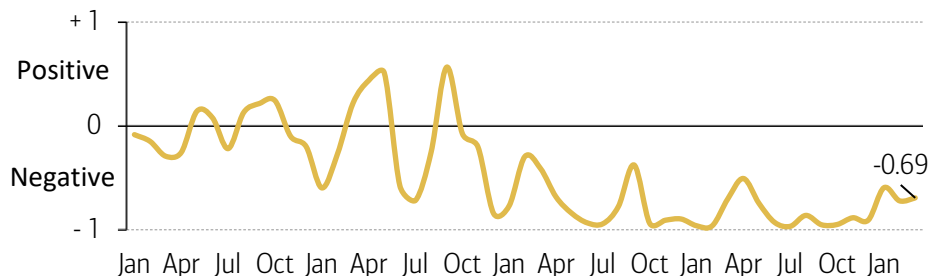
Our cement indicator has hovered over the trough and come in at -0.69 in March. Demand outlook among surveyed cement and concrete producers has stayed negative. The indicator reading has recovered slightly since year-end, as inventory pressure has eased given various winter production halts, reducing the imminent price cut risk. Post holidays, our cement respondents are forecasting cement volumes in March to increase 27% MoM, roughly similar to readings in March last two years, but the corresponding price hike expectations have been much diminished. Producers in **Central/North/NW** are still expecting meaningful price hikes RMB10-20/t, while the rest are just seeing trivial increase. Producers in **East** even foresees RMB1/t cuts, given relative high prices in the regions make it vulnerable to inflows from other regions, such as clinker from Liaoning. The market in the **NE** has yet to restart, and so far seaborne volume heading south has been limited, nevertheless production resumption later could foster such flows. In **South**, producers have successfully hiked price in Feb, limiting room for more increases.

Muted price hike in 1Q resets margin outlook in 2024

Traditionally, cement prices fluctuate seasonally with cuts ahead of Chinese New Year, followed by recovery post-holiday. The dull price action could be detrimental to 2-3Q GP/t for cement producers, since another wave of seasonal price increases won't approach until September. This could lead to downward revisions for consensus earnings, which still factor in earnings bottoming out. We view this as increasingly challenging. Our call with a Digital Cement analyst also came to a similar conclusion, with leading producers' GP/t (Gross Profit per ton) only likely to marginally expand from RMB40-50/t currently. Any turnaround would be contingent on substantial demand improvement, and potential catalysts are lacking with limited policy support announced in the recent National People's Congress.

Exhibit 2: BofA China Cement Outlook Indicator

Our cement indicator picked up slightly at -0.69 in March



Source: BofA China Cement Survey. This indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Exhibit 1: Forecasts & Supply factors

Demand picking up strong with only slight price hikes

Cement	Mar Forecasts		Supply factors	
	Price (RMB/t)	Demand chg MoM	Supply coordination	
National	+5	27%		0%
NE	-	10%		0%
North	+10	24%		0%
East	-1	30%		0%
Central	+20	30%		0%
South	-	30%		0%
Southwest	+6	30%		0%
Northwest	+10	24%		0%

Source: BofA China Cement Survey
Supply factors are % of net positive cement respondents. Higher percentage indicates better coordination, which both favour price hike.

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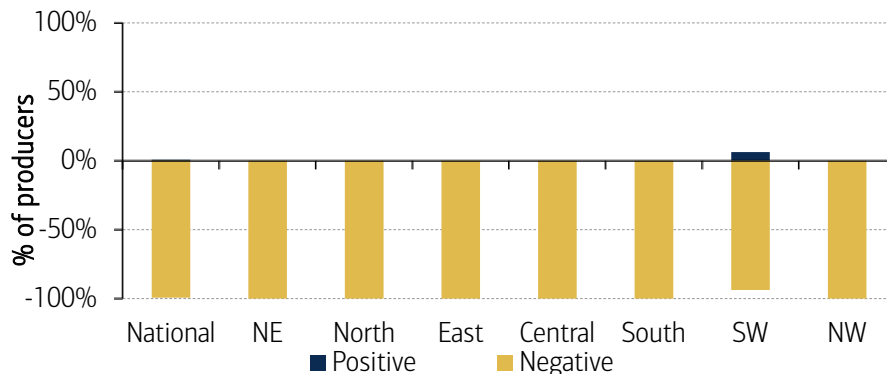
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Key charts

Exhibit 3: Cement producers 3-month outlook stayed negative

99% of producers surveyed believe we are heading into a downward trend.



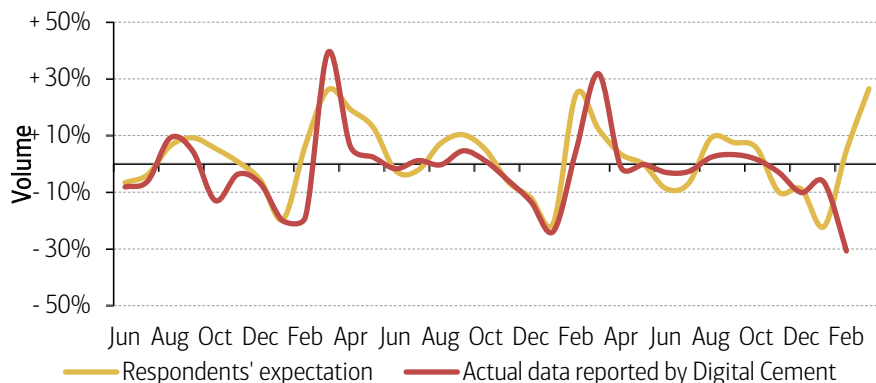
Source: BofA China Cement Survey; Note: Neutral respondents, who are neither positive nor negative, are not indicated above

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99% of the cement producers throughout the nation have stayed pessimistic on the 3-month market outlook.

Exhibit 4: Cement demand expectation for next month

Cement respondents expect national demand to increase 27% MoM in Mar.



Source: BofA China Cement Survey

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Our cement respondents are forecasting cement volumes in Mar to increase 27% MoM, led by demand recovery after Spring Festival.

Key regions

East forecasting +30% MoM

South forecasting +30% MoM

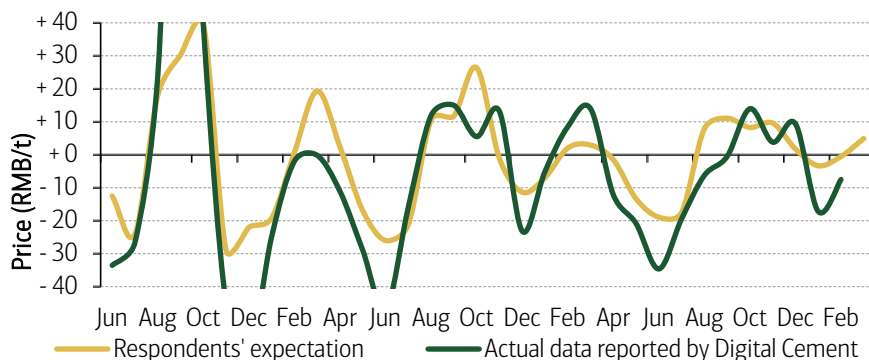
Most/least changes

East/Central/South/SW forecasting +30% MoM

NE forecasting +10% MoM

Exhibit 5: Cement price expectation for next month

Cement respondents expect national cement price RMB5/t increase MoM in Mar.



Source: BofA China Cement Survey

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Our cement respondents are forecasting cement price to increase by RMB5/t in Mar, led by demand recovery after Spring Festival.

Key regions

East forecasting -RMB1/t

South forecasting +RMB0/t

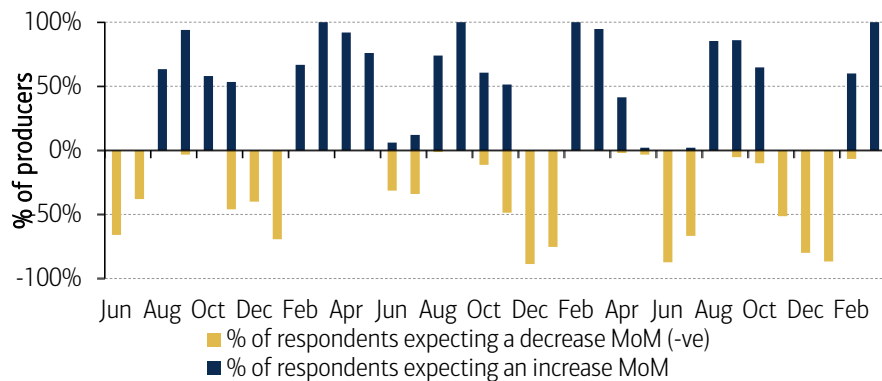
Most/least changes

Central forecasting +RMB20/t

East forecasting -RMB1/t

Exhibit 6: Segment demand expectation – Infrastructure

100% of the cement producers pessimistic about infrastructure demand in Jan.



Source: BofA China Cement Survey, Note: Neutral respondents are not indicated above.

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100% of the cement producers expect infrastructure cement demand to increase in March.

Key regions

East 100% positive

South 100% positive

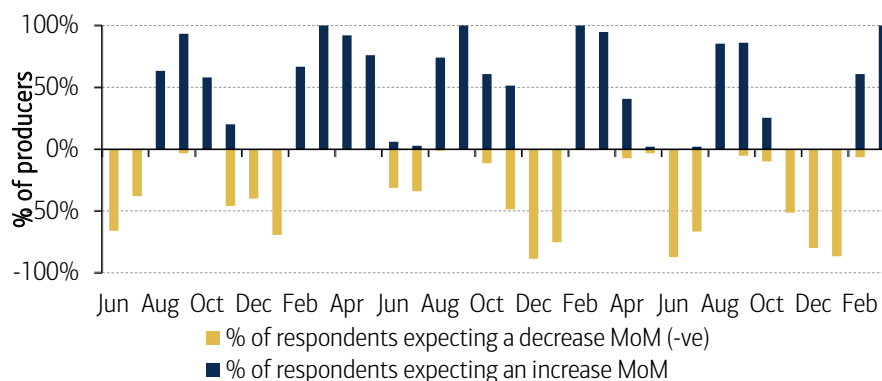
Most positive/negative

All 100% positive

Non-negative

Exhibit 7: Segment demand expectation – Property

100% of the cement producers pessimistic about property demand in Mar.



Source: BofA China Cement Survey, Note: Neutral respondents are not indicated above.

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100% of the cement producers expect property cement demand to increase in Mar.

Key regions

East 100% positive

South 100% positive

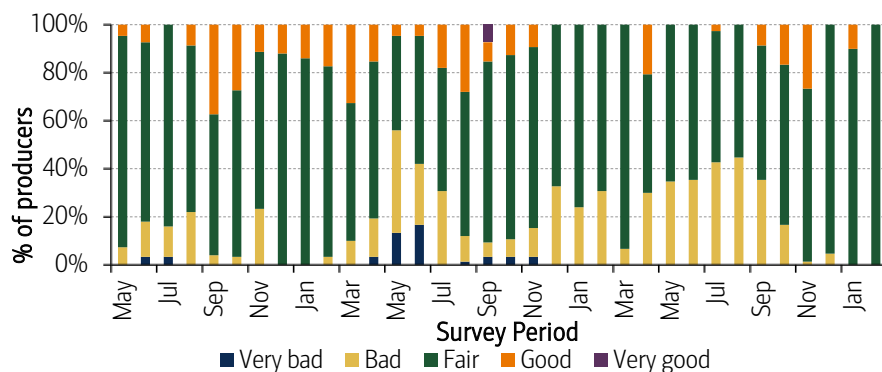
Most positive/negative

All 100% positive

Non-negative

Exhibit 8: Degree of cement supply coordination

Cement producers supply coordination improved in Feb



Source: BofA China Cement Survey

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Supply coordination improved.

Key regions

East: 100% fair

South: 100% fair

Most positive/negative

All 100% fair

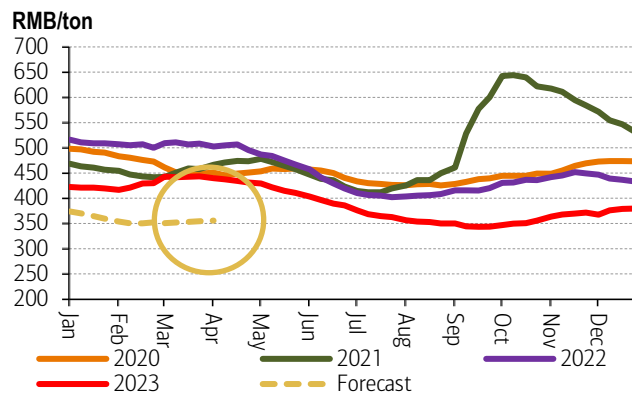
Note:

+ve means either good or very good;

-ve means either bad or very bad

Exhibit 9: Cement price trend – National

Cement producers expect RMB5/t increase.

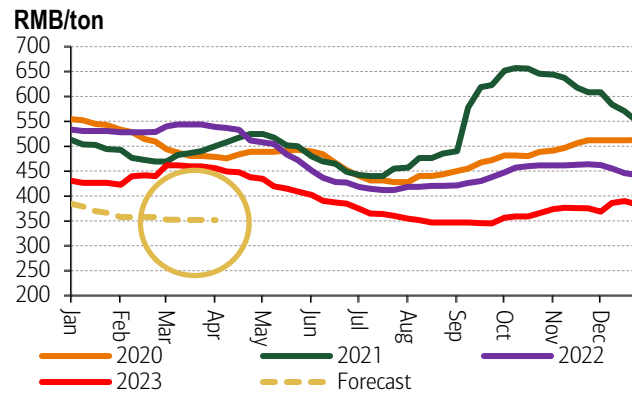


Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 10: Cement price trend – East

Cement producers expect RMB1/t decrease.

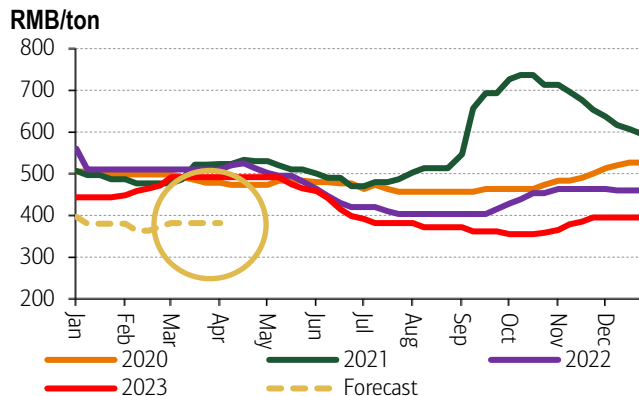


Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 13: Cement price forecast - South

Cement producers expect price to be flattish.

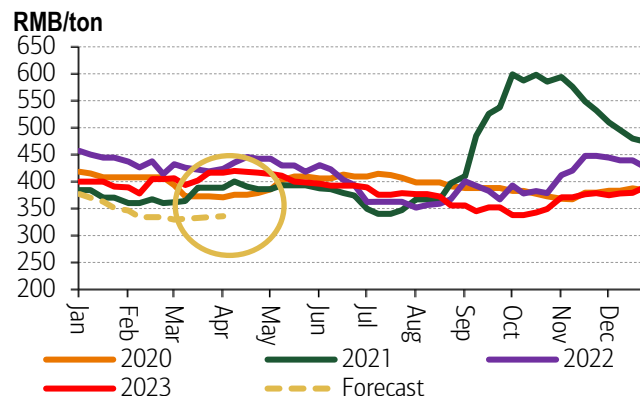


Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 14: Cement price trend – Southwest

Cement producers expect RMB6/t increase.

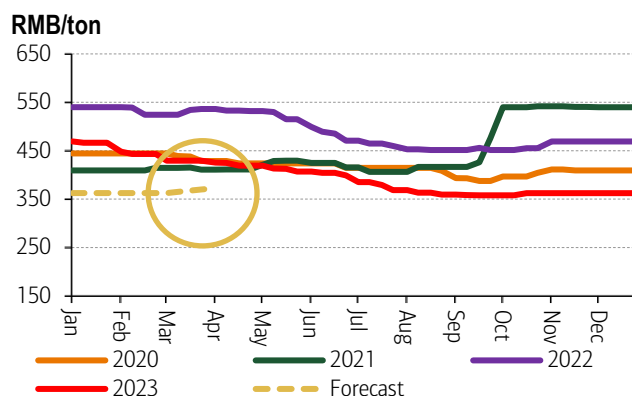


Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 11: Cement price trend – North

Cement producers expect RMB10/t increase.

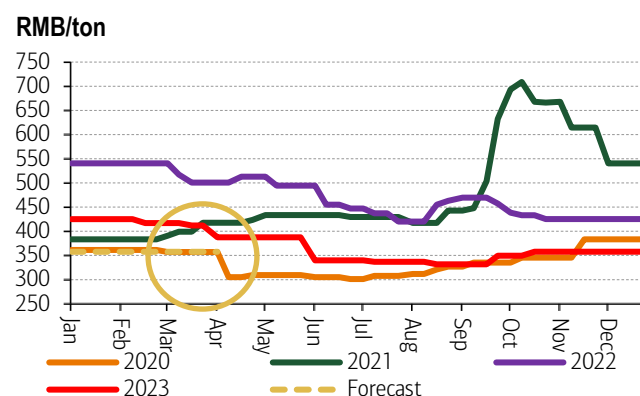


Source: BofA China Cement Survey

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Exhibit 12: Cement price trend - Northeast

Cement producers expect price to be flattish.



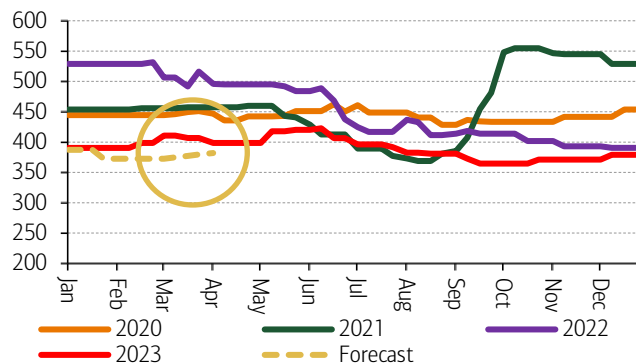
Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 13: Cement price forecast – Northwest

Cement producers expect RMB10/t increase.

RMB/ton



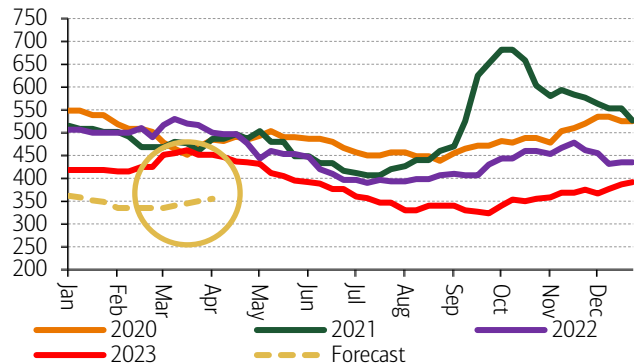
Source: BofA China Cement Survey, Digital Cement for actual data

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Exhibit 14: Cement price trend – Central

Cement producers expect RMB20/t increase.

RMB/ton



Source: BofA China Cement Survey, Digital Cement for actual data

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Our survey process

Introduction

Before the introduction of our survey, the Chinese cement market news are dominated by one data provider only, who provides weekly cement prices, inventory levels, shipment level, as well as some market summary overall, but granular data at each producer as well as their expectations are rarely given. We believe our survey provides a unique prospective how the cement producers evaluate the current market condition and allow us to the gauge the market direction.

Methodology

Our survey data is collected by an independent third party market research agency on a monthly basis. The survey covers 150 cement producers nationwide and collectively they represent 317mt clinker capacity or c.18% of the national capacity. In terms of spatial distribution, we also mimic our sample population against the 2018 clinker production volume reported by Digital Cement, subject to data availability. For example, East/Central-South producers account for 26/23% in our sample vs. 30/27% derived from 2018 production number. The sample population has been fixed and is consistent from month to month, although we might swap some samples if they decline to further participate in our surveys. The survey respondents are usually the plant managers or sales managers who oversee the plant's operation in general. For quality checking, we also benchmark some our survey questions, such as price expectation or sales volume expectation against actual data published by Digital Cement to confirm the predictive power of our survey. We also conduct a smaller but similar survey on 50 regional concrete producers to supplement our analysis.

Pros and Cons of the survey

The potential advantages of the survey are that 1) comparing how the market performed in the current month versus their expectation a month ago, to identify whether the market has underperformed or outperformed; and 2) knowing how the market participants see the market conditions in the future (for the next 1-3 months).

That said, we admit that certain disadvantages exist. For example, downstream demands would be unexpectedly affected by the changes within macro situation or industry policies. Production plan would be affected if local weather condition turns bad, and producers would be required to suspend their operations occasionally, which have been frequent in recent years.

Every survey method has its advantages and disadvantages. We believe our survey could provide a unique insight of cement market participates to readers to better gauge the potential sentiment change.

Publication timeline

Our monthly survey will be conducted at the last week of each month. We will receive our survey data at month end or early the following month, and then we consolidate our data and analyze accordingly. We plan to publish every month in the first week of the next month.

Survey questions

We ask the following questions for the current month.

- Total demand changes on MoM basis
Response: <= -20%, -20%~0%, No change, 0%~+20%, >=+20%
- Infra/property/rural segment demand change
Response: Decrease, No change, Increase
- Clinker inventory level
Response: Percentage
- Cement daily shipment level
Response: Percentage

- Degree of environmental protection policies affecting production
Response: Tightened, No change, Loosened
- Degree of supply coordination among producers
Response: Very bad, Bad, Fair, Good, Very good

We ask the following question for their expectation next month.

- Changes in clinker inventory level
Response: $\leq -20\%$, $-20\% \sim 0\%$, No change, $0\% \sim +20\%$, $\geq +20\%$
- Changes in demand
Response: $\leq -20\%$, $-20\% \sim 0\%$, No change, $0\% \sim +20\%$, $\geq +20\%$
- Infra/property/rural segment demand change
Response: Decrease, No change, Increase
- Changes in cement price
Response: $\leq -\text{RMB}30/\text{t}$, $-\text{RMB}30/\text{t} \sim 0$, No change, $0 \sim +\text{RMB}30/\text{t}$, $\geq +\text{RMB}30/\text{t}$
- Changes in gross profit per ton
Response: $\leq -\text{RMB}20/\text{t}$, $-\text{RMB}20/\text{t} \sim 0$, No change, $0 \sim +\text{RMB}20/\text{t}$, $\geq +\text{RMB}20/\text{t}$

Constructing our BofA China Cement Outlook Indicator

In addition to the question above, we also ask both cement and concrete producers if they are positive/neutral/negative overall about the market next 3 months to reflect their expectation on both demand and price, which often move in tandem. We assign a score 1/0/-1 for their positive/neutral/negative responses and the average of their responses forms our cement & concrete 3-mo outlook respectively. We also calculate the month-end national inventory level from Digital Cement, relative to the past 24 months in the scale of 1 to -1, with 1 being the lowest absolute level during the period. We assign 50/25/25% weight to each of the cement 3-mo outlook/the concrete 3-mo outlook/the relative cement inventory level to form our indicator. We assign greater weight (50%) to the cement outlook question as we believe it reflect the general sentiment among producers, which usually is an early sign when cement price hikes/declines would be taking place. We assign a smaller weight (25% each) to the concrete outlook and relative inventory level as these are key short-term demand and supply factors of cement. Our BofA China Cement Indicator would be in the scale of 1 to -1, with 1 being the most positive of a price hike next 3 month, which indicates a higher likelihood of price hike in our view and vice versa, after taking into account of cement producer sentiment, downstream (i.e. concrete) sentiment, and inventory level.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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