

Uganda's upturn awaits

Despite Uganda's cement market remaining flat in FY21-22, expectations are for a revival in demand growth with the introduction of new infrastructure and housing plans. The country's domestic industry remains reliant on the import of major input materials, including clinker, while the surplus cement situation looks set to continue.

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While Uganda's economy contracted in FY19-20, the following two years saw a pick-up that is now leading to expectations of greater infrastructure and housing investment



Uganda is a landlocked country in East Africa with a population of approximately 45m. The economy contracted in FY19-20 (July 2019-June 2020) but bounced back strongly in FY20-21 and FY21-22, growing at around five per cent each year in terms of real GDP growth. The main economic drivers include the services and industrial sectors.

Cement consumption trends

Cement consumption in Uganda has been growing well and registered an average growth rate of around 10 per cent per

annum in both the past five and 10 years (see Figure 1). It is interesting to note that consumption advanced even in FY19-20 when the economy was contracting, which can primarily be attributed to the construction of large-scale infrastructure projects.

In FY21-22, cement demand remained flat at 4.4Mt as the construction of large infrastructure projects across the country was coming to and end in FY20-21. However, following the Ugandan general elections in 2021, it is believed that large-scale projects are again in the planning

phase and will likely be implemented in the coming years.

Uganda's per capita consumption was ~100kg in FY21-22. It ranks among the top three within East African Community (EAC) countries, together with Kenya (175kg) and Tanzania (110kg). Uganda's per capita demand is considerably higher than other countries in the region, ie, South Sudan (65kg), Rwanda (60kg), Burundi (20kg) and the Democratic Republic of Congo (15kg).

Demand drivers

Domestic cement demand is driven primarily by housing and infrastructure. Housing is the largest end-user (70 per cent), followed by infrastructure (25 per cent), with the remaining five per cent attributed to commercial and institutional buyers (for building office spaces, shops, school buildings, etc).

Some major infrastructure projects include the Uganda Standard Gauge Railway, the Greater Kampala Metropolitan Area Urban Development Program, the Electricity Access Scale-up Project (EASP) and the KLA Bus Rapid Transit.

Apart from government initiatives, private investment in the housing sector is also expected to rise with the increase in urbanisation and population growth. Uganda has a shortage of housing in both rural and urban areas. According to the Centre for Affordable Housing Finance in Africa (CAHF), in 2022 the country had a housing deficit of 2.4m units. The population is rapidly rising at a growth rate of around three per cent per annum, with an urbanisation rate of more than five per cent per annum.

Demand projections

According to World Bank estimates, Uganda's GDP is forecast to increase at an average of 6-7 per cent per annum over the next 4-5 years. Cement demand is influenced by various factors, including economic, population and construction growth, past cement consumption trends, per capita demand and the level of urbanisation. An estimate based on the quantitative analysis of these factors, coupled with other determining aspects (ie, the socio-political environment, upcoming construction and infrastructure projects, market sentiment, etc) point towards a cement demand CAGR of 10 per cent in the next 4-5 years (see Figure 2).

Dispersion of cement demand

Uganda's capital city of Kampala is the



Hima Cement's Kasese plant is one of only two integrated cement plants in the country



Infrastructure accounts for ~25 per cent of Ugandan cement demand



Uganda's cement producers such as Kampala Cement import clinker for their grinding operations



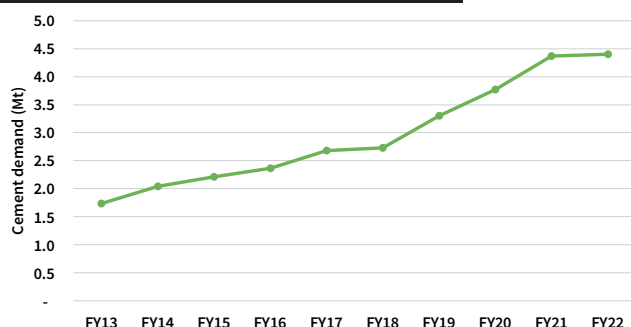
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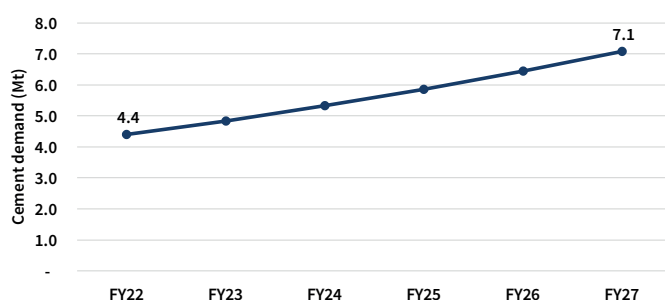
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Figure 1: Ugandan cement consumption, FY12-13–FY21-22A



Source: Holtec Consulting

Figure 2: Ugandan cement consumption, FY21-22A–FY26-27F



Source: Holtec Consulting

largest cement demand centre in the country. The central region (in which Kampala is located) accounts for around 50 per cent of consumption (see Figure 3).

The other major cement-consuming hubs are Kasese, Mbarara, Hoima and Masindi in the western region, Gulu and Lira in the northern region and Mbale in the eastern region.

About 80 per cent of cement is sold through trade channels. The balance is sold directly by cement companies to end-customers, mostly for infrastructure projects. Cement movement within the country is believed to be 100 per cent by road, as the rail network is limited.

Cement types and mode of sales

The Ugandan cement market predominantly consumes Portland pozzolana cement (PPC). Natural pozzolana is available in sufficient amounts in the eastern part of the country.

Approximately 90 per cent of cement is sold in 50kg bags and the balance in bulk (see Figure 4).

Cement production base

Uganda is home to five cement companies: Tororo Cement, Hima Cement, Simba

Cement (National Cement Co), Kampala Cement and Metro Cement. These producers have a total rated cement capacity of 7.2Mta and an effective cement capacity of ~6Mta (derived from cement capacity).

In FY21-22, total cement production was 4.9Mt, indicating an average utilisation

rate of slightly more than 80 per cent when based on effective cement capacity.

Tororo Cement and Hima Cement are the dominant players, together commanding close to an 80 per cent market share. As can be seen in Figures 5 and 6, producer market share is very similar to capacity share.

Coal is used as fuel and is mostly imported from South Africa via the port of Mombasa. Gypsum is sourced from Garissa, Kenya, and its supply is reported not to be constrained.

Power is sourced from the grid and its supply is reported to be stable without considerable fluctuations in frequency or voltage.

Clinker deficit and cement surplus

Uganda has a cement surplus and clinker deficit, a situation that is expected to persist for the foreseeable future.

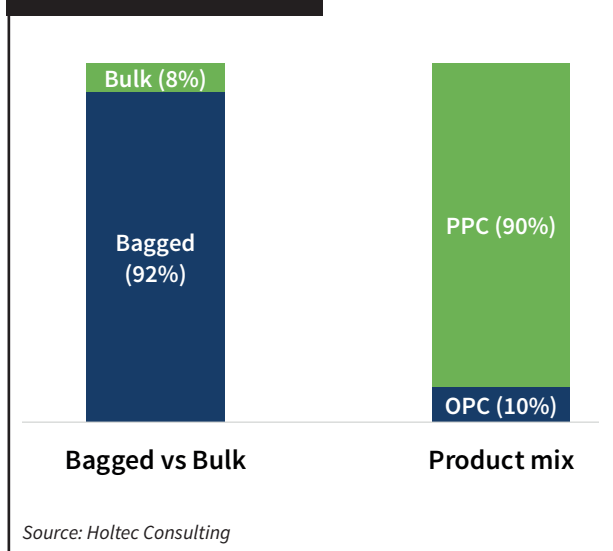
There are only two integrated cement plants in Uganda that produce clinker: Tororo Cement's Tororo works (1000tpd of clinker capacity) and Hima Cement's Kasese plant (1500tpd of clinker capacity). The balance of cement facilities are all grinding units that are dependent on imported clinker. The country's clinker paucity is attributed to three key factors: relatively low limestone quality, limestone being located in forest areas (therefore making mining restrictive) and complexities in obtaining mining licences.

Given the effective cement capacity in Uganda and the consumption-based product mix (ie, 90 per cent PPC and 10

Figure 3: Ugandan market regions (with share of total demand), key raw materials and production base



Figure 4: cement sales by type



per cent OPC), clinker capacity should be ~3.6Mta instead of the current 0.8-0.9Mta.

In terms of cement capacity, Tororo Cement is expanding cement production capacity at its existing site by 2Mta. This will take Uganda's effective cement capacity to 8Mta by the end of 2023. Additionally, there have been announcements of greenfield cement capacity additions in Moroto (1Mta) and Mbale (2Mta). However, it is uncertain if or when these projects will materialise.

It is envisioned that all the new capacity additions will employ efficient technology, such as vertical roller mills, five- or six-stage preheaters with waste heat recovery systems and cross-bar coolers. Existing plants are believed to mostly use ball mill grinding technology. Thus, power and fuel consumption are currently seen to be on the higher side.

Exports and imports

Clinker

All players in Uganda (including Tororo Cement and Hima Cement, which have their own clinker facilities) import

clinker as domestic production capacity is not adequate to meet the country's clinker requirement. Uganda imports clinker from Kenya and the Gulf region. Kenyan product is supplied via road, whereas imports from the Gulf region are transshipped by sea to Mombasa in Kenya and then delivered by road to Uganda.

Cement

Uganda exports ~0.5Mta of cement to neighbouring countries with a cement deficit, ie, South Sudan and the eastern region of DR of Congo.

Until 2017 Uganda imported 0.3-0.4Mta of cement. However, following the commissioning of the Kampala Cement and Simba Cement plants, cement imports have become almost negligible.

Uganda levies an import duty of 25 per cent on cement, which makes imported cement relatively non-competitive compared to the cost of production of local cement based on imported clinker.

Cement prices

In Uganda around 75 per cent of cement is sold on an ex-works basis and prices are mainly quoted as such. The ex-factory price includes the basic price of cement,

VAT (18 per cent), excise duty (fixed at UGX500/US\$0.14 /bag) and a sticker fee by the Uganda Revenue Authority (fixed at UGX135/US\$0.04/bag).

In the 4Q22 the ex- works price of PPC was UGX28,000-31,000/bag (US\$7.50-8.50). OPC prices are typically around UGX9000-10,000/bag (US\$2.40-2.70/bag) more than PPC. The retail price of PPC in Kampala around the same time was reported to be UGX30,000-34,000/bag (US\$8-9/bag).

Challenges and the road ahead

Uganda relies substantially on the import of major input materials (ie, clinker, coal and gypsum). As clinker from the Gulf region is received at Mombasa port in Kenya and then transported around 1000km by road to Uganda, logistics makes the landed cost of clinker high in Uganda, resulting in higher cement production costs. Moreover, the reliance on the import of key input materials often leads to an irregular supply and also creates exposure to exchange rate fluctuations.

In the future domestic producers may also face competition from imported cement, especially if the government decreases or removes the import duty of cement (currently at 25 per cent).

Ugandan cement demand has had robust growth in the past and, despite current challenges, the outlook is upbeat. The domestic market is expected to continue growing at a healthy CAGR of 10 per cent per annum. Domestic producers also have a locational advantage in terms of supplying cement to bordering countries that have a cement deficit.

However, the industry needs to become more self-reliant on critical input materials like limestone and thereby ensure regular supply of cement to meet the local demand. This would likely lead to cement manufacturers also becoming more profitable. ■

Figure 5: breakdown of cement capacity share, FY21-22

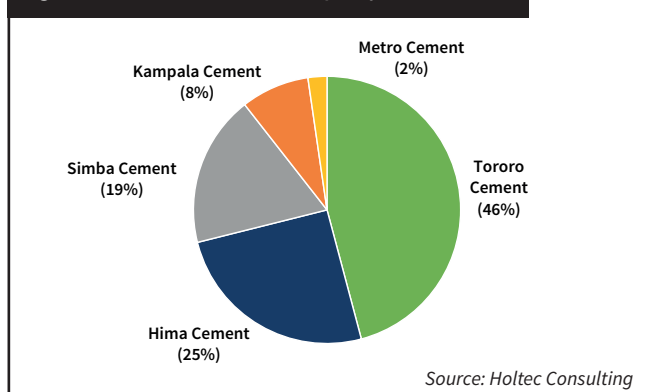


Figure 6: breakdown of market share, FY21-22

