

Update on The Cement Industry in Indonesia - July 2010

Existing Operations

There are seven main players with a combined design clinker capacity of 40.7 million tons per year and cement 44.9 million tons. Cement output in 2009 was 39.6 million tones. Much of the domestic cement supply is now extended by blending in fly ash or other enhancers so the actual capacity could be more however allowance should be made for the age of some cement plants and corresponding inefficiencies. Also, some plants are currently shut down such as Kupang.

There is a range of productive entities in the Indonesian Cement Industry, the largest being the publicly quoted Gresik Group which incorporates:

1. **Semen Gresik** which originated at Gresik but is now mainly at Tuban. Both towns are on the North coast of East Java
2. **Semen Padang**, the oldest plant in the country and based in West Sumatra.
3. **Semen Tonasa** in South Sulawesi.
Group capacity 16.92 million tons per annum mtpa
4. **Semen Baturaja** in South Sumatra
Capacity 1.25 mpta
5. **Semen Kupang** in West Timor,

Both small by comparison and Government owned are in process as at July 2010 of being taken into the group. This in theory will streamline operations, reduce cross freighting and maintain a stronger control on prices.

Semen Kupang has never been fully commissioned but theoretical capacity is 570,000 tpa.

6. **Indocement Tunggal Prakarsa** (ex Salim Group) is the second largest group, publicly quoted and is majority owned and managed by Heidelberg Cement. The producing units are at Bogor and Cirebon.

Indocement also took over the Pioneer concrete operations and runs this expanding business in parallel with their cement operations.

Capacity of the two plants is 15.65 mtpa

7. **Holcim Indonesia.** Holcim bought the majority shares and took over management of Hashim Djojohadikusumo's Cibinong group following the crisis of 1998. The plants are at Bogor and Nusantara in West and Central Java. Ruthless head cutting and massive expenditure on marketing has prepared this company for expansion which started with a deal for the Cemex grinding plant at Ciwandan in North West Banten. Their concrete operations have also expanded considerably through low cost entry into large projects subsidised by their own cement.

Capacity of the two plants is 8.7mtpa

8. **Lafarge owns Semen Andalas Indonesia** with the factory and private port near Banda Aceh and a large bulk terminal at Belawan the port of Medan in North East Sumatra. The new kiln rebuilt after the Tsunami was re-commissioned on 30 June 2010. They inherited the company when they bought out partners Cementia and Blue Circle.

The rated capacity of the Chinese rebuild is said to be 1.5mtpa

9. **Semen Bosowa Maros** near to Tonasa in South Sulawesi was built during the 1997/1999 political and financial turmoil and was the only Greenfield plant to be completed of the ten or so planned at that time. It is owned by the Aksa family.

Capacity of the single line plant is 1.8mtpa

The three listed Indonesian cement producers **Semen Gresik Group, Holcim** and **Indocement** are now stretched to capacity and report considerable growth in operations over the previous year. The industry has consistently denied the upcoming shortage and the Ministry seem oblivious to the pending shortage.

Future Capacity

- Both Tonasa and Gresik (Tuban) are building new 2.5 mtpa lines which should be commissioned in 2012. They are being engineered in-house.
- PT Semen Kupang has still not been commissioned even though the Ganda Group is reputed to have signed an agreement to manage the plant and they in turn have agreements for technical expertise assistance.

- PT Semen Andalas at LhoNga Banda Aceh made clinker on June 30 2010 for the first time since the 2004 Tsunami. They will probably continue to import cement into Belawan as the Aceh market has grown to the Lafarge plant's domestic capacity. This import alone fills an approximate million mtpa shortfall in domestic production and can be increased.
- Holcim is 'starting' to construct a 1.5mtpa cement project near Tuban. This could be commissioned in 2014. Their acquisition of the clinker Grinding plant in Banten also allows import of clinker direct and adds a further 600,000tpa to the market. Expansion to this plant can be expected shortly as a fast and low cost expansion in advance of the Tuban kiln commissioning.
- A privately financed Chinese sourced 100,000 tpa grinding plant has been commissioned near Medan with clinker reportedly supplied from Andalas.
- P T Boral Indonesia, a wholly foreign owned Indonesian company incorporated with the purpose of constructing a fully integrated cement plant on a site in Lebak Regency, Banten Province. This will incorporate a private port and a power plant and all ancillary requirements for a green field development. A receiving terminal in Jakarta will also be built
- The Papua Government is looking at the possibility of a 500,000 tpa plant near Timika.

Cement Pricing

The industry has seen several large price increases blamed on cost escalation of oil, steel etc but in fact as these costs were later reduced, there was no subsequent reduction in the cement prices and profits have rocketed as have share prices. The cement price has held up to around Rp900,000 per metric ton. Few new plants are being developed by new parties except as indicated below.

Cement production in 2009/10 to July 1st was 41,283,277 (2008/9 38,242,756) metric tons (mt), an increase of 3 million mt or 8%.

1. Domestic consumption was 40,378,119 (36,769,069) mt, 9.8% up on the previous year.
2. Cement price was about level on the previous year. Domestic demand is up 10% in 2010 year on year to date.

To maintain supply to current rates of increase in demand; the industry needs to commission ten new 2.5 mtpa production lines within the next ten years.

The timeline for one plant excluding land buying can be four years but with the complications of the land laws and insecurity of the legal system, this can take many years through to commissioning. This would indicate that with a maximum of 6.5 mtpa coming on line within three years, the country will have to import even more than it is already (although not visible in the official statistics). Although producing a massive financial bonus to the importers which in the main will be the producers themselves. The loser will be the country in a huge negative swing to the balance of trade.