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02 AUG, 2019

Cement prices and housing affordability

The Sun, Malaysia

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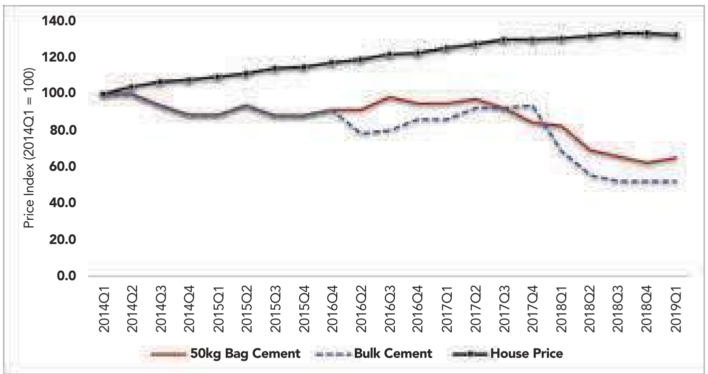
Understanding the landscape of Malaysia's cement industry

CEMENT production in Malaysia is highly concentrated, in which three of the eight cement manufacturers across the country account for about 70% of the production capacity share. Majority of these manufacturers are vertically integrated with ready-mixed concrete manufacturing, precast concrete products manufacturing, and possess their own building materials' distribution arm.

The industry saw further consolidation when YTL Cement Bhd acquired Lafarge Malaysia Bhd in May 2019, creating a market leader with capacity share of over 60% in Peninsular Malaysia. The biggest concern here is the surge in cement price that will spark a chain reaction in the construction and property development industry, leading to a rise in property prices.



(Source: CIDB, NAPIC)

Figure 1: Pricing trend for 50kg bag cement, bulk cement, and residential housing

Cement price hikes have been observed since May 2019, which is the bandwagon effect happening among cement manufacturers as they tend to follow the market leader when it changes its prices. However, this should not be treated as the sole reason of rising house prices, due to little evidence correlating the fluctuation of cement prices to house prices.

Although cement price has been trending downward in the past few years, property prices continued to climb instead. Between 1Q 2014 and 1Q 2019, prices for a 50kg bag cement and bulk cement fell with a CAGR of 8.27% and 12.26% respectively; which is in contrast to the CAGR 5.7% rise in house prices during the same period (Figure 1).

To better understand the impact of cement-related cost on house price, the following cost simulation is conducted (Figure 2). Assume that 400 units of 900 sq ft average standard apartment with a RM300,000 per unit price tag are to be constructed on five acres with land price of RM130psf, which is subject to the density of 80 units per acre.

As one can observe, building cost makes up 77% of the total construction cost, which is 49% of the total selling price. Cement-related cost is mainly reflected in the construction of substructure and superstructure, which comprises 16% and 46% of the total building cost respectively.

In this sense, the equivalent cement-related cost is 5.9% (RM17,925/RM300,000 X 100%) of the unit selling price. If cement prices rise 40% as claimed by industry stakeholders, both the resulting construction cost and house price will increase by 17% and 8.4% respectively; which is relatively lesser than expected.

Moreover, the simulation is based on the worst case scenario basis, with the assumption that all cement-related materials prices rise by 40%. In actual practice, the respective price increases could be much lower, averaging between 3% and 5% of the total cost.

Cement users have misapprehended the cement price hike. They even inculpated cement manufacturers for the recent price hike without government approval under the Control of Supplies Act.

However, many may not be aware that hefty cement rebates have been given by the cement manufacturers, which is way below the government controlled price. For instance, in terms of 50kg bag PCC cement, rebates given by YTL Cement ranged from RM3 to RM10 throughout the period of 1Q 2018 till 2Q 2019. For bulk cement, it was reported that rebates were as high as RM140 to RM150 per tonne with an average selling price of RM360 per tonne.

Malaysia has been experiencing an oversupply of cement since 2011. Supply exceeded demand due mainly to the slowdown in the construction sector following the cancellation of several mega projects, and the expansion of manufacturing capacity in anticipation of stronger domestic demand growth.

Consequently, the cement industry was seemingly plagued by the price war among major players, causing a race to the bottom in terms of cement prices in the last few years. The recent withdrawal of cement rebates was seen as a move towards a much closer cement controlled price for the long term sustainability of local cement companies.

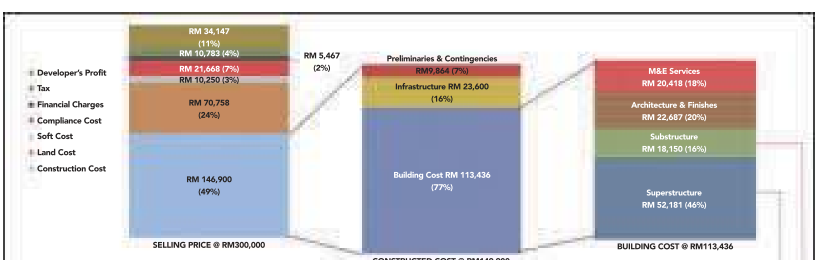
As mentioned by the Cement and Concrete Association (C&CA), the rise of cement prices since May 2019 was more of a price adjustment made by local cement manufacturers with the aim of restoring cement prices to a more reasonable level, to ensure the survival of the cement industry as declining cement prices have reached levels that are lower than operating costs.

If things do not improve for the loss-making cement companies, more industry players would exit the market. The country would then depend more on imports like in the past, which would expose us to more market volatility and risks that are detrimental to a developing country like Malaysia.

Having said that, the present study does not aim to underestimate the impact of cement price hikes. Note that cement price is not controlled and every cement company can set its own prices.

The message of this study is that the government should strike a balance between the mega projects in the pipeline and the sustainability of cement companies, by considering a gradual cement rebate withdrawal towards the emergence of a controlled cement price before considering the next round of government-controlled price uplifting.

As the price adjustment could be regulated when necessary, other government intervention such as a subsidy could be an alternative option to minimise the overall economic impact.



	Cost Breakdown	Cement related Cost
Substructure	**RM18,150**	**RM6,116**
Piling works	*RM12,932*	*RM4,655*
Work below lowest floor level	*RM5,218*	*RM1,461*
Superstructure	**RM52,181**	**RM11,809**
Frame	*RM9,869*	*RM2,467*
Upper floor	*RM11,911*	*RM3,931*
Roof	*RM2,042*	*RM673*
Stairs & Ramps	*RM1,022*	*RM337*
External wall	*RM15,654*	*RM3,131*
Windows & External door	*RM4,197*	
Internal walls & Partitions	*RM6,352*	*RM1,270*
Internal doors	*RM1,134*	
Total	**RM70,331**	**RM17,925**

(Source: MKH Bhd)

Figure 2: Cost structure of a typical apartment unit @ RM300,000

This article was contributed by MKH Bhd general manager of building materials Brandon Loo and manager of product research & development Dr Foo Chee Hung.

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