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## Thematic Report: Cement Industry in Xinjiang

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# Strong Xinjiang development to continue to drive better-than-expected cement demand

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### Event:

Inventories of cement producers in parts of Xinjiang have been caught short recently. Some areas in northern Xinjiang (such as Urumqi, in particular) are exhibiting wider supply gaps, thus requiring cement shipments from neighboring Kuerle. We understand from local dealers that the selling price of 32.5 grade cement has already risen to more than Rmb600/tonne, up a significant Rmb150/tonne from the previous month. Shortages in regional cement markets were obvious. Our comments are as follows:

### Comment:

## Better-than-expected demand is the key reason; shortages in some areas expected to continue until Oct 10E

The recent shortage of cement in parts of Xinjiang was primarily the result of better-than-expected demand. With the successive commencement and gradual entry into peak construction periods of several major infrastructure projects (as represented by the second Lanxin Railway line), cement demand has grown rapidly. While the Xinjiang region is forecast to see the heaviest supply pressure due to new cement capacity in 2010E, new production lines entering operation during the period are mainly concentrated in 2H10E. Hence, genuine supply pressure is not expected to materialize until after Oct 10E. Taking both supply and demand into account, the cement shortage in parts of Xinjiang is expected to continue in the short-term.

## Strong Xinjiang development expected to continue to drive better-than-expected cement demand going forward; we remain positive about the business climate of Xinjiang's cement industry

**Successive construction starts of a large number of infrastructure projects to drive accelerated growth in Xinjiang's cement demand; heavy infrastructure investment in the "12th five-year plan" is expected to drive rapid growth in regional cement demand.** From a demand perspective, the CAGR of Xinjiang's cement demand over the last three years was 19.2%, slightly lower than China's total FAI CAGR (21.7%). It benefited primarily from concentrated construction starts of a large number of infrastructure projects. Based on the plans of infrastructure projects in Xinjiang (including railways and highways), Xinjiang's demand for cement in 2010E is expected to reach 25.5m tonnes (+25% YoY). At the same time, we believe that Xinjiang's imminent announcement of its "12th five-year plan" may involve a sharp increase in the intensity of infrastructure investment (projected average annual investment of ~Rmb400-500bn for the next five years), which would further boost cement demand. Given that 2011E is to be the first year of the "12th five-year plan", we expect Xinjiang's cement demand to increase to 33m tonnes (+30%) next year.

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### Performance of stock or sector relative to MSCI-China Index over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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