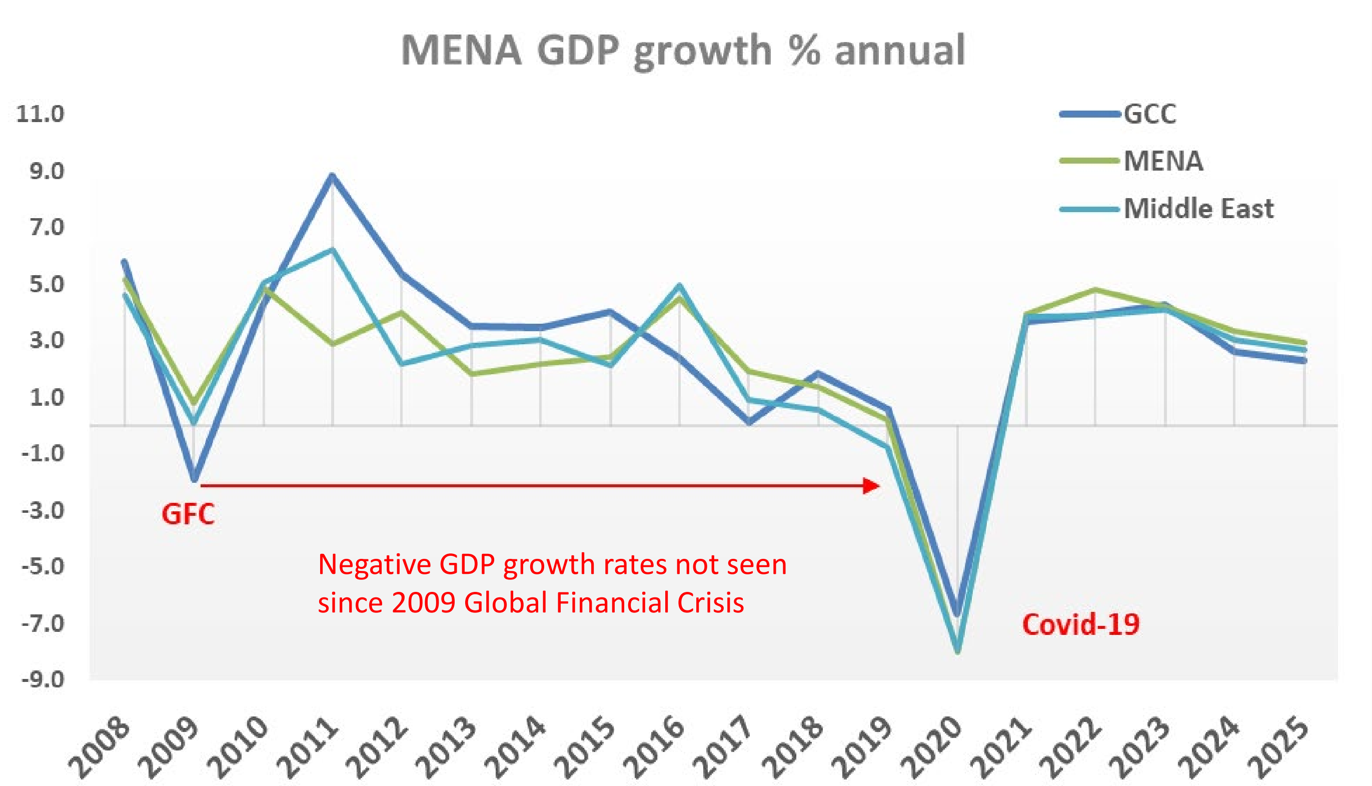
Emirates Steel

Global Forum for Steel Excess Capacity

22 Sep 2020

GCC & MENA | Current Macro Economic Status

Economic growth has been steadily declining since 2011 with unprecedented contraction in 2020

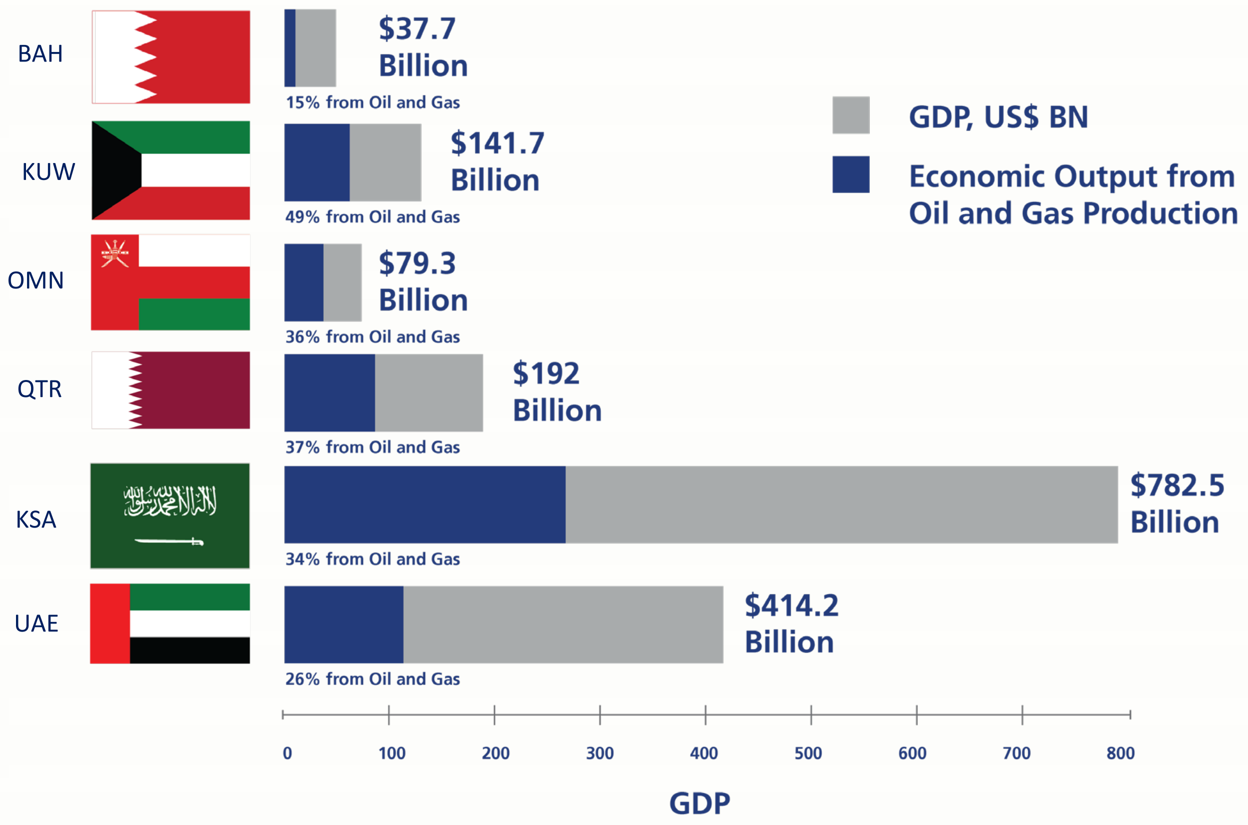


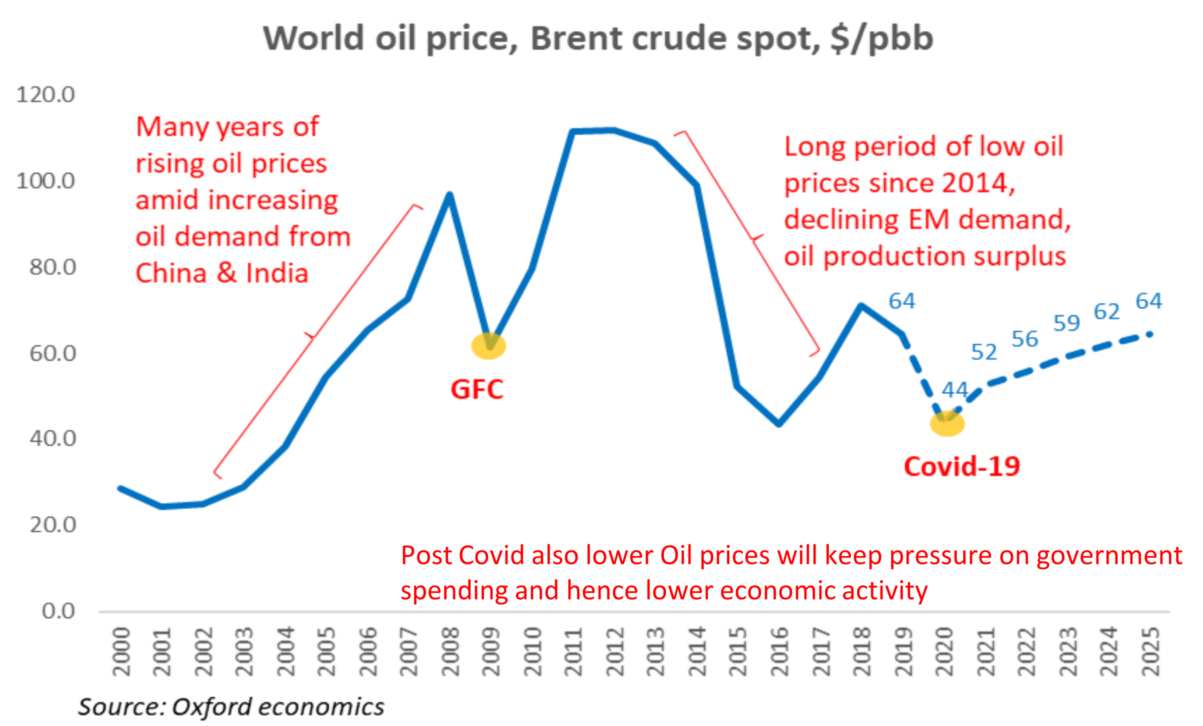
- MENA economies expected to contract by an average of 8% in 2020 amid Covid-19 implications

GCC & MENA | Current Macro Economic Status

GDP in GCC countries is largely dependent on Oil Sector.

Drop in oil prices since 2011 has been detrimental for economic growth in oil-dependent countries



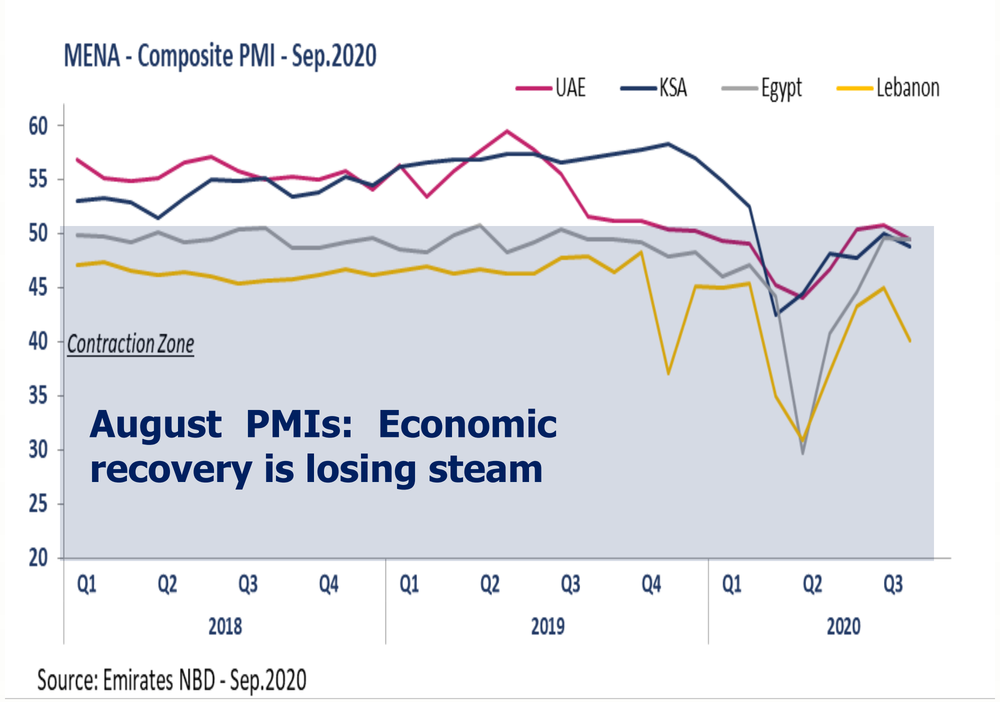


GCC: Key Issues in 2020

1. Low oil prices & Production
2. Non-oil economy contraction

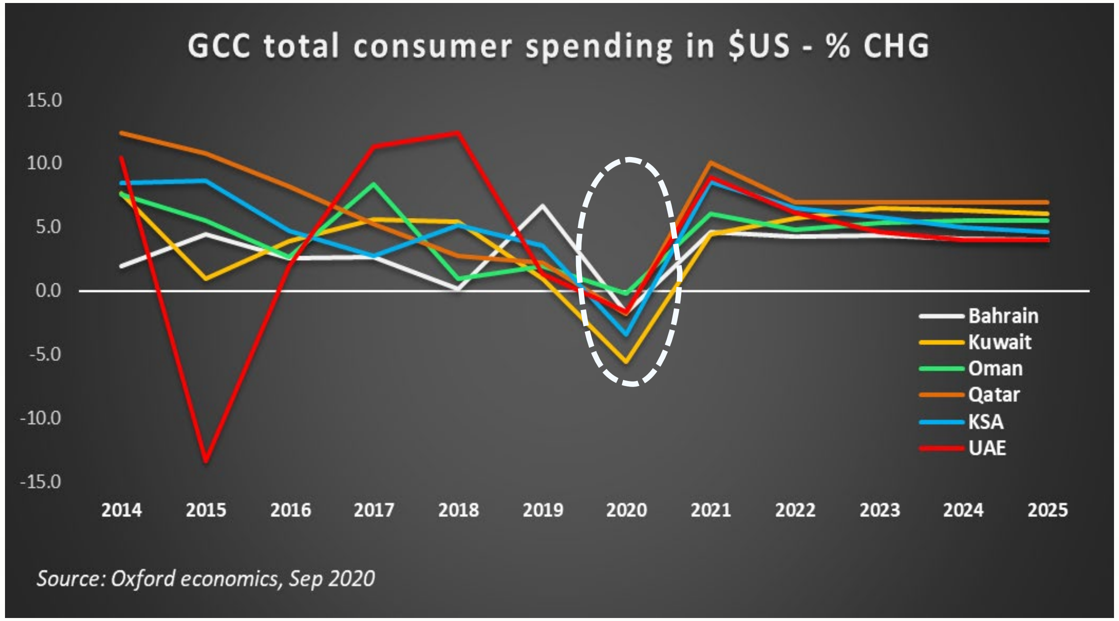
GCC & MENA | Current Macro Economic Status

Contracting non-oil sectors :
PMIs still below min threshold



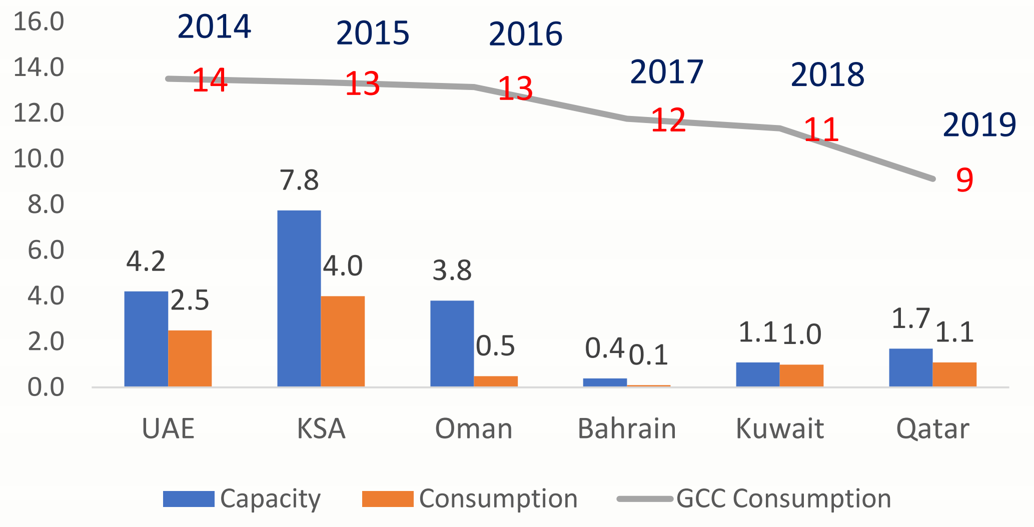
Despite easing of Covid-19 restrictions, businesses are struggling to navigate post-lockdown conditions with weak consumer demand

Consumer Spending Challenges 2019-2020



GCC Excess Steel Capacity

GCC Rebar Capacity vs Consumption Trend



Rebar

- Region has seen overall per capita consumption come down from 1000 Kg/ per capita in 2009 to ~ 325 Kg / capita currently.
- In GCC, 84% of per capita consumption is Rebar, whereas in matured economies, Rebar is only 27% of per capita consumption

Sections

- 2 MT capacity vs total consumption of 0.6 MT
- Utilization of section production capacities is only 29-30 %.

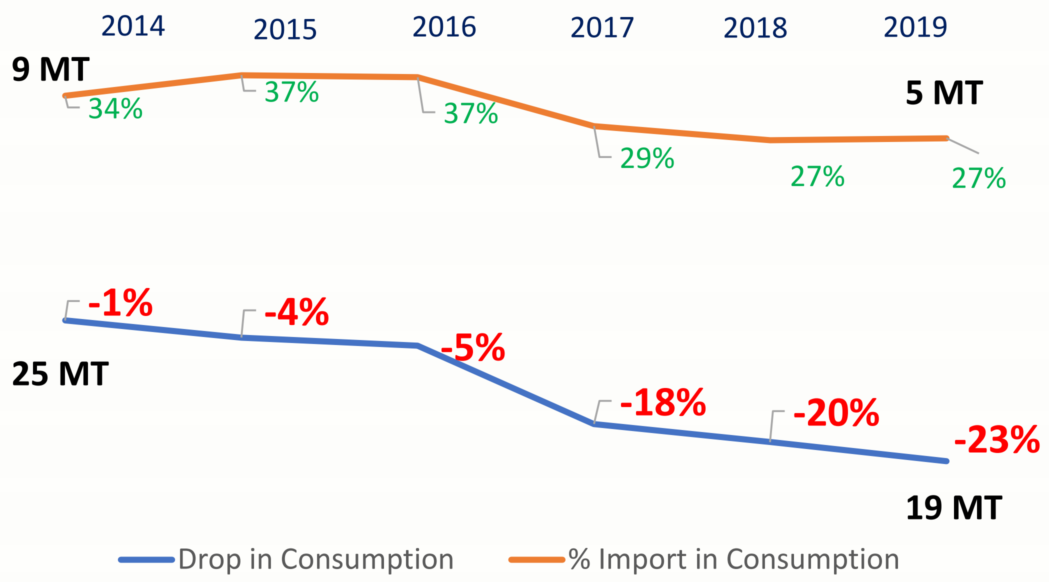
- Rebar capacity in GCC is around 19 million tons per annum.
- Consumption declined from 14 million tons in 2014 to 9 million tons in 2019 resulting in a substantial over capacity situation.

- In 2020, the COVID-19 pandemic caused a further contraction of around 25% in consumption to just under 7 million tons
- The rebar capacity utilization thus dropped from around 48% in 2019 to around 35% in 2020.

- Idle capacities are caused by depressed rebar prices but more because of declining demand.
- Since 2015, GCC economies have been cutting public spending and construction activity has been shrinking.

GCC Excess Steel Capacity

Drop in GCC total steel consumption vs drop in imports



- In GCC, total steel consumption from 25 million tons in 2014 to 19 million tons in 2019
- Imports for the same period dropped from 9 million tons to 5 million tons

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Additional Challenges facing the Steel Sector in GCC

Imbalance in Trade barriers

- Lack of barriers in many GCC against imports (open market policies)
- GCC / UAE manufacturers face trade barriers in most parts of the world.
- No quality standards on GCC level to provide trade parity.

Over-supply & intense competition

- Over-capacity of production in UAE / GCC owing to no regulatory body at GCC level to control capacity to be installed.
- Longs market already weak before Covid19 and regional supply / demand not balanced.
- Threat of demand recovery seen in Q3 2020 loosing steam will apply more downward pressure on the market in Q4 2020.

Heavy reliance on Government Spending

- High reliance on construction industry and government spending on infrastructure projects
- Private Investment is very low as compared to Government Funded investment*(Including Construction)*.
- Limited specific Incentives to drive private investment participation.

Low level of robust industrial plan for diversified products / Other

- Very low level of downstream industries set up to support multiple industry participation; across all metals; specially in steel.
- No downstream for automotive; neither car assembly nor component manufacturing.
- Low spending on R&D: limited ability to develop niche steel products
- Little leverage over high raw material costs: IOP and Scrap
- Ending of utility subsidies: Natural Gas, electricity and water
- High shipping costs to export markets

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