Securities code: 600801 Stock abbreviation: Huaxin Cement

Huaxin Cement Co., Ltd

Log of Investor Relations Activity

Type of Investor Relations Activity	□Specific Object Research □Analyst Meeting □Media Interview ☑Performance Brief □Press Conference □Roadshow □Site Visit □Others
Time	April 9, 2024 (Tuesday) 9:30-12:00
Location	Hong Kong, Central and Western District, Admiralty, Supreme Court Road, Pacific Place, Island Shangri-La
Company representatives	• Director/CEO Li Yeqing • Vice President/Board Secretary Ye Jiaxing • Vice President/CFO Chen Qian
Attendees	39 institutional investors and building materials industry analysts from CITIC, CICC, Morgan Stanley, Guotai Junan, Changjiang Securities, and other institutions
Main Content of Investor Relations Activity	**I. Company profile** Li Yeqing, Director and CEO **Domestic cement demand and industry:** The decline in domestic cement demand is an established fact, but undoubtedly, it did not start from now on. Domestic cement demand already peaked in 2014, and there has been a gradual decline since then. Domestic cement demand has dropped from the peak of 2.49 billion tons in 2014 to 2.02 billion tons last year, a decrease of about 20%. This is a reasonable figure over a 10-year period, but it has led to a significant decline in industry profits. The entire industry's profit last year was only around 32 billion, even lower than in 2015. Considering that many companies now have significant contributions from their aggregate, RMX business, and overseas business, the industry profit from domestic cement business alone is even lower. Current Chinese cement industry is suffering at the bottom. Looking at

	future trends, many people have different views. I think that the gradual decline in demand is inevitable, as China's per capita cement demand will not be maintained constantly at the level of 1.5-1.6 tons. However, I don't think it will experience a cliff-like decline like Spain due to the impact of the financial crisis, since the central government's control of the macro economy far exceeds that of any other country in the world. It is more about confidence and concept. Ten years ago, I said that demand would decline, contrary to the widely-held view. Now that everyone sees the decline, they are overly panicked. So I hold the view that the decline in demand is for sure, but it will not be a cliff-like decline. Currently, there needs to be a fundamental change in the industry's mindset. Developed countries have also experienced overcapacity, but I noticed that their business philosophy still focuses on commercial value. Therefore, even when their demand has decreased way more significantly, their operating profit has not experienced a cliff-like decline. While our demand has not gone through a dramatic decline, the profits have plummeted. So I believe that the core goal of the domestic cement industry should be profit recovery, and the key to profit recovery is pricing. **Aggregate and RMX Business:** Current sand and gravel industry is enjoying great profit. However, the pessimism toward the future is prevalent. Industry wise, sand and gravel is more of a "short leg" product compared with cement. Sand and gravel industry nationwide is not concentrated though, regional market is highly concentrated. RMX industry overcapacity emerged 10 years ago, and for these 10 years, RMX has been hovering at the bottom. Nevertheless, the profit of the whole industry has been increasing. The control of profit and bottom line is better than cement since RMX's business process and logistic distance is shorter and is more regionally concentrated. In addition, more cement and aggregate companies' involvement in the RMX industry will lead to more concentration. The business model including the control of receivables will improve. In light of this, aggregate and RMX industry can be expected. **Carbon Emissions:** Carbon emissions have already seen the introduction of multiple national policies. We expect the implementation of dual control of carbon emission intensity and total volume, which will bring more opportunities to the industry. **Overseas Markets:** From the data we have collected, demand should be relatively stable, and the capacity in most regions is basically stable. Although some regions are also facing excess capacity, they have basically found a balance. What needs

	attention is that some local markets have seen a large influx of new capacity due to short-term demand growth, such as the Fergana Basin in Uzbekistan in 2023, which saw about 7 million tons of new capacity and another 15 million tons under construction, most of which are Chinese companies. This market will soon change from a supply shortage to a supply surplus. This investment philosophy and model may lead to local government and enterprise resistance and protests. Overall, overseas investment development is full of opportunities but also full of risks, requiring more wisdom from Chinese companies. The Four Strategies have supported our development over the past decade, including integrated transformation strategy, overseas development strategy, new building materials business expansion strategy, and traditional industry and digital innovation strategy. Faced with the current situation, we will maintain strategic stability and continue to move forward along a clear strategic direction. Our goals are very clear for 2024. Huaxin has never used sales volume as assessment and pursuit. We will adhere to the philosophy that "profit is the goal, price (income) is the foundation," and strive to maintain positive growth in operating income, EBITDA, and operating cash flow. **II. Main Questions from Investor Exchange:** **1. Please introduce the current situation and profitability of Huaxin's overseas regions by country, the company's future overseas layout, whether it is new construction or acquisition? Also, please introduce the outlook for domestic cement business this year. Will the company's dividend payout ratio of 40% increase?** We currently have businesses in 11 countries overseas. **Central Asia:** We have 4 plants in 3 countries, 2 in Tajikistan, 1 in Uzbekistan, and 1 in Kyrgyzstan. These 4 factories had very good profits last year, with high contribution rates, making them the core profit and cash contribution areas of our overseas business. In Tajikistan, we have been operating for more than a decade, and we have always adopted a rational strategy and attitude towards the market. The performance is good, and the local government is also very satisfied. We have always controlled our prices to ensure that ordinary people can afford cement. Uzbekistan was the best-performing overseas factory last year. The Huaxin Uzbekistan factory was built before the pandemic in 2019 and started production in July 2020 despite pandemic. In just over three

	years, the investment in this project has been fully recovered, and we are ready for the new capacity impact this year. Kyrgyzstan is an acquired factory, and we have not changed the local market competition pattern, so the performance has been stable. **South Asia and Southeast Asia:** The investment for Cambodia plant has long been recovered. Due to the overcapacity caused by Chinese enterprise investments and the reduction of local investment demand, last year's performance was not as good as before, but it is still profitable. The Nepal factory currently has a low profit, mainly because of the local mountainous features, which require longer preparation for mining. **Middle East:** We acquired the Oman factory and improved the production cost. Local demand and price are stable, continuously contributing to the performance and dividend of the company. **Africa:** we are in a stable and growth period. After we took over the Holcim factory in Zambia, there has seen a steady increase in profits when we reduced cost and stabilized price. In Tanzania, we acquired a local factory that had already gone bankrupt and ceased production. After taking over, we revitalized the factory through technological upgrades, turning it from a failing business into a thriving one; the performance in the last two years has been very good. Therefore, we have expanded with a second phase and established our own power plant to ensure the stable electricity of the production line. However, it takes time to absorb the new capacity. The performance in South Africa and Mozambique far exceeds what it was before we took over, with significant decreases in sales volume and costs. **Overseas expansion:** The company does not set restrictions for overseas regions. We often explore opportunities in areas such as Africa and Asia, and in the future, we will also venture into South America. Huaxin is committed to becoming a global multinational corporation, and thus we will not be confined or limited to a specific country or region. In terms of overseas development model, rashly building new greenfield factories could significantly impact the local market in a short period. It is very dangerous to simply copy China's development model abroad; it could lead to unprofitable investments and negatively affect local existing businesses. Huaxin tries to be rational, taking M&A as the primary approach. Huaxin has accumulated the capability to cooperate with different cultures, technologies, and countries overseas. After acquisitions, we often carry out the necessary technological transformations to ensure stable returns alongside steady demand

	growth. **Domestic cement demand:** This year will not see a significant improvement. It is estimated that the overall demand will remain flat or slightly decrease compared to last year. The downward trend in demand is expected to continue this year, but it will not decrease as much as some peers might imagine. The cement prices have essentially hit the bottom. As the disclosure of the first-quarter reports, companies pressure will mount, which could also stimulate price increase. Overall, the cement price is likely to be upward. **Dividend:** The dividend payout ratio has remained very stable over the past five years, which is an expectation of the shareholders. We hope to continue pay back to our shareholders. What's worth noticing is that we are still developing, especially with significant funding needs for overseas expansion. Therefore, our strategy is to maintain a balance that can satisfy the company's development capital requirements while also rewarding our shareholders. In general, for the next few years, we prefer to maintain the dividend payout ratio, but we hope to increase the absolute terms through performance growth, thus better rewarding our investors. **2. Please introduce the path, industry landscape of the capacity exit of the cement industry, and how long does it take to absorb it? During the exit, it's widely accepted that the share will prioritize, price will go down. You mentioned the price is the basis, how to balance this?** This year marks the 200th anniversary of the birth of Portland cement. Cement products iterates slowly. The homogeneity of products leads to price competition, also leads to a situation where many peers emphasize the elimination of backward capacities through fully marketing price competition. It's a professional misunderstanding. Over 90% of production lines were new dry process lines built after 2000. The scale of lines is increasing. However, Germany, where the rotary kilns originated, still keeps the old production lines like vertical kilns and Lepol kilns. From international experience, when regional market demand is insufficient, larger production line scales are not necessarily better. This has actually been verified with the changes in domestic demand, such as in our local market in Guizhou. But it is not easy to form a consensus on this misunderstanding. From the actual situation, in the "prisoner's dilemma" scenario, price competition has not achieved the expected capacity clearance.

China started market economy since 1993, and it has only over 30 years' experience until today. It still in the primary stage of the market economy. The problem of overcapacity we are facing now has also been the problem in some developed markets. In Harvard's management theories, there have long been solutions proposed for the competition strategies in overcapacity markets, such as the "prisoner's dilemma." From the effects, these have also been verified in mature countries in Europe and North America. In fact, most of the developing countries where we invest overseas also have overcapacity, but why can they maintain market stability? The relatively fewer operators and understanding of the strategies for the "prisoner's dilemma" allow prices to maintain a reasonable level, and naturally, a reasonable return can be obtained.

I believe that the clearing capacity through marketization in the domestic cement industry should also refer to their experience and adopt more M&A (Mergers and Acquisitions). Considering the current situation in the domestic industry, it should be possible to focus on the share-based merger.

The prevalent "market share is the basis, profit is the aim" does not conform to economics. Since market share is the basis, then what's the basis for market share? To achieve market share and sales volume, especially in the downward trend, you have to lower the price, and the profit becomes the sacrifice.

3. Has the price of aggregate stabilized? How's the carbon quota process going? Will it be distributed by the output or by the capacity? How will Huaxin respond to the foreign exchange risks?

Huaxin is among the first large enterprises to enter into aggregate industry, accumulating deep understanding in the business. Overall, most regions do not lack sand and aggregate resources, except Shanghai. Aggregate business emphasizes location. Resources within 3 kilometers along the Yangtze River are occupied long ago. The mining approved later are 30 or 50 km away from the River, which requires excessive long belt, meaning large investment and lower profit.

Aggregate prices: Under the influence of the national policy for the protection of the Yangtze River, small-scale capacities along the river have basically been cleared out. The aggregates along the Yangtze are now mainly operated by large enterprises in large-scale aggregate factories. The large investment has also led to more focus on investment returns, which is a factor in the overall stability of aggregate prices in the Yangtze River basin. As the high-quality development places increasing

	emphasis on environmental impact, the aggregate business in other regions will also follow a similar logic towards a stable price range. From a global market perspective, the gross profit of aggregate businesses in developed regions is generally higher than that of cement businesses. The aggregate business is a cold, intermittent production process, so although the designed capacity may seem excessive, the actual capacity is controllable. **Carbon market:** The national unified carbon market is currently preparing to expand from the power industry to cement and aluminum electrolysis. This is a process, but it cannot be achieved all at once. The so-called "one-step solution" is to achieve dual control of carbon intensity and total carbon emissions, which is the current model in Europe. At the current stage, it is likely that the initial focus will still be on controlling the unit intensity. **Foreign exchange risk of overseas investment:** We have been doing quite well in this regard. For every overseas investment opportunity, we conduct strict assessments of the local macroeconomic situation, political environment, and foreign exchange risks. Our principle is that we will never invest in a country where foreign exchange cannot be converted, even if it offers high paper profits. For example, in 2019, we investigated the Ethiopian market and accessed potential cooperative projects, but after researching and evaluating the foreign exchange risks, we decisively abandoned the project. Currently, part of overseas investment funds come from the foreign exchange earned by existing overseas factories, and another part of the funds comes from utilizing the support of the national Belt and Road policy. We borrow RMB domestically and then exchange it into US dollars; we are pursuing both paths. As we all know, the countries where we are currently investing are basically those along the Belt and Road, so an unavoidable issue is that the foreign exchange risks in these countries are definitely greater than those in developed European and American countries. Exchange rate fluctuations may be more frequent, and in the long run, there will be a trend of depreciation. Additionally, these countries have varying degrees of foreign exchange controls. Our main strategies are: First, before investing, it is very important for us to assess whether the risks are within a range we can bear. Second, while the exchange rate is depreciating, whether our products have the ability to increase prices locally. In other words, when our overseas regions manage the prices in these countries, we do not only

	look at the local currency prices but also the prices converted into US dollars. Third, there must be some feasible channels for foreign exchange conversion. It should be said that all these countries have some degree of foreign exchange control, but basically, we can find reasonable channels for currency exchange. Finally, in terms of the overall foreign exchange risk management strategy, the most important thing is to diversify investments and risks. We will not have excessive investments in one country. 80-90% of the foreign exchange risk is hedged through diversification strategies, and for the remaining countries that cannot be hedged, we use other tools for hedging. This is a relatively reasonable method used by large and mature multinational companies. **4. At what time will the integration of the cement industry happen? Are small companies willing to be merged? What will be the differences of the new capacity exit cycle from last time? What's the plan for RMX business? And have you considered any distinct business model in RMX?** During the last round of domestic consolidation, building materials underwent a significant merger. I had mentioned at that time that the overall direction was correct, but the timing was immature, and the outcome was unpredictable. The demand at that time had not peaked, and mergers should have begun during a downturn cycle, not during an upturn. When we are chasing the profits of future growth, the cost we have to pay is the growth, and the total cost is naturally higher. Now everyone can see that when there is no profit to be made, it becomes a burden. Therefore, consolidation during the industry's downturn cycle is a more appropriate time. The current time could be considered an excellent period for mergers, as overall demand is declining and the market is not favorable. A merger could yield benefits. Of course, there must be parties willing to proceed, both those who are willing to merge and those who are open to being merged. Some companies, for instance, are currently operating at a loss, and a merger could turn them profitable. Once exemplary cases are established, the pace of integration will accelerate. One approach is to start with those who are struggling; for example, the Northeast market has already begun some regional consolidation. Another strategy is to initiate mergers with those who are "wealthy," in order to preserve their prosperous status. In the RMX business, Huaxin currently adopts a development model of

M&A and leasing, which does not disrupt the supply-demand balance of the regional market. Previously, Huaxin, together with some peers, guided the cement and aggregate industries to shift towards the cash sales model. Now, it is also leading the concrete industry to gradually transition to cash on delivery, improving the situation of accounts receivable. Currently, Huaxin's accounts receivable per unit RMX has already fallen significantly below the industry average.

5. Mr. Li, you mentioned referring to the international experience earlier and you think the margin of cement industry should keep around 30%, has your thoughts changed? What's your view to the future? What's your take on the time and scale of the adjustment in the industry cycle?

I maintained my view on referring to the international experience. It's a process of mindset change. The profit following the overcapacity in cement industry in Europe and America is good. 30% gross margin is widely accepted. Japan and Korea also treaded the same path. They went through the integration, and Japan's top 3 concentration exceeds 80% now while Korea's top 5 concentration exceeds 90%. The industry will be more rational after the integration and the market expectation will be more stable.

Back in 2015, domestic cement industry was gloomy. Then the top enterprises reached a consensus and the industry enjoyed a five year golden period.

Seen from the trend and current situation, this round of adjustment will not take long.

6. What's the outlook for the competitiveness of large and small kiln lines? Will kiln lines below 1,500 tons clinker/day be phased out?

I've always held the view that the larger the scale, the more efficient, the lower the cost is a pseudo-proposition. When the market is growing, large scale and higher efficiency is right. However, it's not right when the demand goes downward.

In a period of downward demand, price is the basis of share and sales volume. Sacrificing the price can be compared with lowering the cost. When the cost was cut 20, the price was cut 100, can the profit go up? So we have to improve efficiency in the balance of supply and demand, instead of break the balance for the only sake of efficiency.

Small scale kiln lines can achieve the standard of emission and

	consumption, and even higher fuel substitution rate and lower carbon emission. In addition, when the demand is insufficient, small lines can release capacity more easily while large lines efficiency is inferior to small lines. Huaxin has the technology from 1,000 tpd to 14,000 tpd, but Huaxin's investment concept always highlights matching with local demand, be it in or out of China. We choose the scale appropriate to the market demand. **7. You position yourself to be a global multinational company. So what's your plan for the scale of overseas market? Any expectation for the location and time?** Our business is not confined to a certain area, but globally. In the future, the layout will be more than 11 countries, even 25 countries or more. We are planning diversified investment. The wider areas, the lower risks. So we will not be confined to a certain area. For the goal, 50 million tons might be a scale for the mid-term. **8. What is the current stage of the integration layout in the domestic market, and will we continue to pursue scale growth, or will we enhance the competitiveness and profitability of integration through other means? Will the company also adopt a similar integration model overseas? When will the RMX business become a positive contribution to the company's long-term cash flow, in addition to cement and aggregates?** We will continue with our RMX business. In fact, the core of our domestic market is the integration from cement and aggregates to RMX. In areas where integration can't be achieved, we generally do not engage in the RMX business. Hainan is an exception where future cement production is expected to be phased out, achieving environmental protection and resource restrictions across the island. We expect that the cement will be entirely import-dependent in the future; aggregates are definitely available, but the reason we did not get involved in Hainan's aggregates was the high cost, with aggregate mining rights fees ranging from 30 to 40 yuan/ton. Therefore, in Hainan, we operate an independent RMX business. In other regions, we operate the RMX business with integration. We have market influence in these areas, where our cement and aggregates have cost competitive advantages, allowing us to gain more market returns. Hence, we will continue to expand our RMX business; we have an aggregate capacity of about 200 to 300 million tons, equivalent to approximately 150 million m^3 RMX. Of course, we will not operate it all by ourselves, but this is our

	general direction. Overseas is not ready for the integration, as these countries have not reached the stage of development, and the current focus is still on on-site mixing. Regarding the cash flow of RMX, on the surface, the cash flow of RMX may be negative, but we adopts integrated model, meaning that the main raw materials including cement and aggregates are our own. We have already achieved positive cash flow in cement and aggregates, and for the entire group, the actual cash flow positive contribution has been realized. It's highly likely that the RMX business breaking even in terms of cash flow in the future, which will continue to enhance the overall cash flow contribution to the group. **9. Could you introduce the overseas management framework and related cases?** In the early stages of the overseas operations, we focused on greenfield projects, and local management was primarily based on Chinese and Chinese-language. After the M&A model was initiated, we could only send some core management and technical personnel to the sites, using English or local languages as the working language, and then gradually "transplant" the Huaxin systems and management systems, and integrate cultures. This is an essential capability for western multinational corporations, but it is a challenge for Chinese companies moving towards globalization, and it is also a direction that must be strived for.