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Mexico's multinational company CEMEX is poised to become the world's largest cement manufacturer with the acquisition of Australia's Rinker Group, a company that has extensive holdings in the US. The acquisition came closer to completion in April, after the Rinker board of directors approved a CEMEX offer of US$15.85 per share for the company's Australia-traded shares. Shareholders must approve the transaction.

CEMEX's global expansion could be offset by a possible loss of its operations in Venezuela, where President Hugo Chavez has threatened to nationalize all private cement operations, including those belonging to CEMEX, unless the companies reduce prices and increase domestic sales significantly.

While nationalization is not imminent, it remains a real possibility. CEMEX's acquisition of Rinker greatly expands the Mexican company's global holdings, creating the world's largest cement manufacturer. With the transaction, CEMEX would vault ahead of France's Lafarge and Switzerland's Holcim. CEMEX operates in more than 50 countries in North America, Europe, Latin America, Asia, and Africa (see SourceMex, 2000-10-11, 2001-10-03, 2004-10-06).

Once the Australian transaction is finalized, CEMEX is said to be considering expanding its holdings in South Asia with the possible purchase of India's Cements and Chemicals, analysts told the Mexico City daily newspaper Reforma. Australian company has extensive holdings in US The CEMEX acquisition of Rinker did not come easily, as the Australian company's directors became involved in a tug-of-war with their potential buyers.

Rinker rejected the Mexican company's initial bid of US$13 per share as too low. Additionally, the bid was unsolicited and Rinker considered it a hostile-takeover attempt by CEMEX. "The preliminary view of the Rinker board is that the proposed offer is opportunistic and materially undervalues the company," Rinker chairman John Morschel said in October when the offer was first made. Analysts said the true value of Rinker shares was closer to US$20.

CEMEX declined to offer bids that high, partly because its potential competitors, Holcim and Lafarge, were not intending to expand into Australia. "CEMEX's timing is tactically motivated as major competitive bidders are tied up with integrating more recent acquisitions and focusing on emerging markets, and balance sheets look too stretched to offer a substantive threat to the CEMEX offer," said Simon Thackray at the investment banking company ABN AMRO.

Still, Rinker had left the door open to CEMEX, which in the end agreed to boost its offer to the final price of US$15.85. The company's shareholders must still ratify the transaction, which is not necessarily a done deal. The Australian Foundation Investment Co. (AFIC), which owns a large bloc

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of Rinker stock, said CEMEX's purchase price is not high enough. "We will be encouraging other major shareholders to say 'no' to the offer," said AFIC managing director Ross Baker. "By no means is it clear that CEMEX would get Rinker." Australian financial analysts said, however, that they expect the transaction to gain approval. "We believe the final bid...is likely to be successful," said Andrew Dale, an analyst for the Australian financial company Macquarie.

One of the motivating factors for CEMEX to enter into the transaction was the possibility of gaining increased access to the Australian company's operations in the US market. Rinker, which reported revenues of US$5.1 billion and net income of US$740 million in 2006, supplies almost one-third of the building materials used in US residential construction, analysts said. The company derives 85% of its earnings from operations in 29 states but is especially strong in Arizona and Florida.

If the Rinker transaction goes through, the US government will require CEMEX to sell 39 of its own facilities in the two states to comply with US anti-trust laws. Some analysts noted the strong expansion into the US market via the Rinker purchase might not be favorable to CEMEX in the near term, as the US housing market is expected to remain in a slump at least through the first quarter of 2008. "This transaction would expose CEMEX to a possible recession in this market niche," said a report from Merrill Lynch.

Residential construction accounts for 30% of CEMEX's global earnings, compared with 21% from commercial construction and 49% from public works.

CEMEX operations in Venezuela threatened

The near-term problems in the US market could prove insignificant when compared with the possible loss of CEMEX's operations in Venezuela. At about the same time that CEMEX was gaining approval for the purchase of Rinker, the company learned that its operations in the South American country could be in jeopardy. In a speech in mid-April, President Chavez raised concerns that the high cost and short supply of cement were slowing Venezuela's efforts to expand housing for low- and middle-income buyers.

The Venezuelan president warned that he would nationalize all private cement companies if they continued to export a large share of their production rather than make it available domestically. "We need to investigate the cement factories. I want reports...because what is going on is that they still prefer to export at a higher price than provide supplies in the interest of the Venezuelan people," Chavez said.

Chavez's comments were directed at all cement manufacturers, but any move to nationalize would have a deep impact on Monterrey-based CEMEX, which operates 42 plants, 12 distribution centers, and four maritime terminals in Venezuela. CEMEX's total production in Venezuela is about 4.6 million MT annually. This is only about 3% of the company's total global output, but it would have enough of an impact to create a strategic problem for the company, said analyst Carlos Gonzalez of IXE Casa de Bolsa. Other private companies that produce cement in Venezuela are Lafarge, Holcim, and Venezuelan-based Cementera Cerro Azul and Cemento Andino.

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CEMEX officials declined comment on Chavez's statements, but some sources noted that the Venezuelan president had privately been pressuring CEMEX since 2005 to take actions to boost supply and to reduce prices. "CEMEX responded by introducing a more affordable product called Cemento Solidario," said the Monterrey daily newspaper El Norte. "This product is discounted by 16% and targeted to contractors involved in constructing low-income housing."

Chavez acknowledged that his preference would be for private companies to continue to produce cement. "I am telling private companies that we are willing to respect them as long as they submit to the Constitution, our laws, and the national interest," Chavez said in his speech. Analysts agreed that nationalization is probably a last resort for Chavez, who is seeking to pressure the private companies to sell more of their output at lower prices in Venezuela. "The intention of the Venezuelan president is perhaps that some of the cement that would normally be intended for export be sold in the domestic market," said Carlos Hermosillo of Vector Casa de Bolsa.

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