Summary of Industrial Study

Steel Billets in KSA
Introduction
This summary provides an overview about steel billet Industry in the Kingdom of Saudi Arabia including product description, manufacturing process, supply/demand, future demand, factors affecting prices, in addition to competition.

Product Description
Steel Billets are the raw materials that are used for producing long steel products including rebar, wire rod, and steel sections such as flat bar and angle bar. Based on steel billets producers’ estimation, in 2015 about 91% of the billets application went for rebar, while the remaining 9% was related to rebar in coil, plain wire rod, and steel sections.

Manufacturing Process
The steel billets are produced by melting either steel scrap or DRI (Direct Reduced Iron). The molten metal is then casted as a billet that has a square cross-section with an area less than 36 inches and a length ranging from 6 meters to 12 meters.

Market Overview
Generally, fluctuating of raw materials prices (scrap and DRI) and the overcapacity significantly impact steel prices, which as a result reduces the profit margins of major steelmakers. The key buyers of steel billets are the producers of the finished products (rebar, wire rod, and steel sections), which are used by numerous industries, but mainly construction and engineering firms.

In 2015, the majority of local steel billets production were toward captive use either for integrated operations or for sister companies. Rebar products are used in construction processes that are more or less standardized. Design procedures, building materials and tools are standardized hence the raw materials are required to be standardized as well. Rebar is a building material, a commodity type of product, as long as it meets the specifications. However, the steel billets and rebar are both strategic products as they are core elements in the construction sector without substitutes in the building materials market. The demand for rebar correlates strongly with the developments in the construction of infrastructural projects and concrete buildings (residential, commercial, communal and industrial buildings).

Entering the steel billets market requires significant capital outlay, which tends to discourage newcomers with insufficient capital. High fixed costs ensure a certain degree of rivalry, as companies are subsequently committed to a certain scale of operations, in order to remain profitable. The local producers of billets are concentrated on the eastern region, western region, and central region. All the local production is towards satisfying local demand without exporting activities as the export of steel billets and rebar is banned by the government.

Supply/Demand
In 2015, there were 18 operational local producers of steel billets. The following chart shows the local production of steel billets during 2013-2015:
In 2015, the total production has experienced a reduction in 2015 by 10% compared to 2014. This is mainly due to the fact that some large billet factories have reduced their production in 2015 and imported their needed quantities of billets as the production cost of billets is higher than the prices of imported billets. The decreasing prices of billets in the global market is related to the excessive volumes of Chinese steel products which are pushed into global market and eventually decreases the pricing for Chinese steel.

The Saudi market for steel billets is supplied by either the local production (76%) or the imports (24%) from sources in China, South Korea, Ukraine, Russia, and other countries. Importing activities are mainly through the local rolling mills factories that need the billets to transform them into finished long products such as rebar, wire rod, and steel sections. Small portion of the imported billets are handled by large traders. The chart below shows the development of imported quantities of steel billets during the last four years (2012-2015):

The steel billets are key semi-finished products. Therefore, it is not exported because local demand is more than local production and exports are banned by Government.

**Historical Demand**

The following chart shows the total historical demand of steel billets for the last three years (2013-2015):

As it can be seen from the table above, the local demand decreased in 2015. This is due to the fact that some large billet factories have reduced their production in 2015 and imported their needed quantities of billets as the imported billets are cheaper than producing billets locally.

**Future Demand**

The future demand of steel billets is affected by some factors. Firstly, Lower oil prices in an economy highly geared towards the sector might make some investors think twice, particularly in the industrial construction sector. Secondly, the industry is heavily reliant on government contracts rather than a free market driven by the private sector. Thirdly, China is now responsible for half of the world’s steel production and China’s mills are dumping excess output abroad, and the country’s overcapacity is estimated to be 250 million tons a year. The excessive volumes of Chinese steel products are pushed into global market and the main conviction factor for the buyers is the unbeatable pricing for Chinese steel. Additionally, as many of the major projects under development being awarded over...
the past four years and the majority of which will reach completion by 2018; SIDF forecasts the future market demand of billets as the following:

The following chart presents the market share of local production compared to the imports during 2015:

**Prices**

The price of steel billets is mostly affected by the level of local demand and the international price of the billets as well as the raw materials (steel scrap & DRI). Both prices significantly influence the prices of steel billets and eventually the prices of steel rebar and steel sections.

**Competition**

The Kingdom’s market for steel billets is dominated by five large producers. Overall, total local production represented 76% of total market of steel billets in 2015 while imports accounted for the balance of 24% in the same year. These five local producers are certified and approved by almost all end users such as ministries, private contractors, and other governmental agencies. These five large factories can target large mega construction projects due to their scale and their high quality products. However, other medium and small factories cannot compete directly with those large factories; instead these small and medium factories mainly target the distributors and traders.

**Conclusion**

Steel billets are the raw materials that are fundamental for the production of other steel products such as steel rebar and steel sections. The Kingdom’s market for steel billets is dominated by five large producers. Overall, total local production represented 76% of total market of steel billets in 2015. These products are strategic in the construction sector without substitutes. They are widely used in the construction of airports, universities, housing units, factories and industrial buildings in addition to other small, medium, and large construction projects in the Kingdom.
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