

The Uqalo Report

NEWS FROM THE CONSUMER SECTOR IN SUB-SAHARAN AFRICA

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Uqalo is a specialist investor targeting opportunities related to the Consumer in sub-Saharan Africa. The Uqalo Report provides the investment and business communities with a regular and concise update on activity in the sub-Saharan consumer products sub-sectors of most interest to Uqalo, namely Fabric & Clothing, Food & Beverage, Home & Personal Care and General Merchandise. It also contains the Uqalo Consumer Index and highlights recent research conducted by Uqalo, freely available at www.uqalo.com

Industry

- The "Africa Rising" narrative is in question as growth slows and governance issues remain. With soft commodity prices and EM currency weakness, the **IMF** forecasts economic growth in sub-Saharan Africa will slow to 3.8% in 2016, the lowest growth in almost two decades. A few countries such as Ethiopia, the Democratic Republic of Congo, Ivory Coast, Tanzania and Rwanda will continue to show robust growth of 6–8% albeit from a low base. Meantime, the recently released 2015 Ibrahim Index of African Governance shows a worsening situation.
- The **African Growth and Opportunity Act (AGOA)**, which allows qualifying sub-Saharan African countries to export eligible products duty-free into the USA, has been renewed for another 10-year period. AGOA will doubtless encourage a shift of some manufacturing to SSA, although the recently agreed Trans-Pacific Partnership (TPP) will provide similar benefits to countries such as Vietnam which might be higher cost locations but are better established.

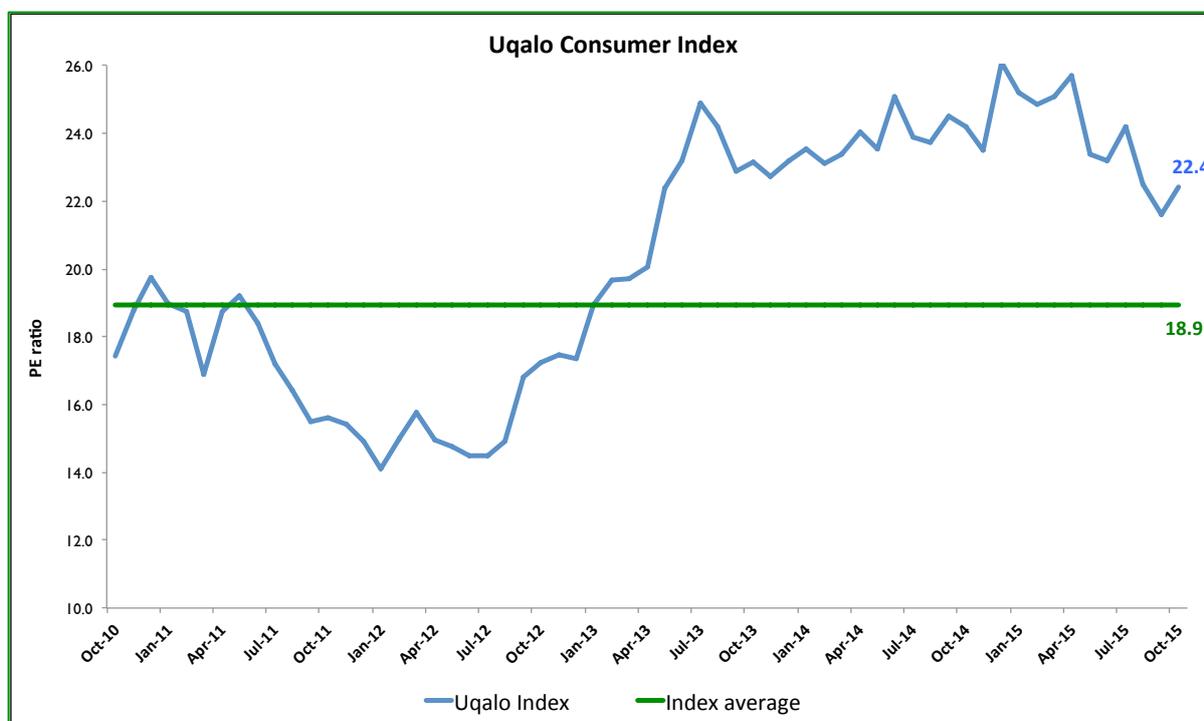
Private Equity

- Subject to regulatory approvals, **Sun European Partners** has acquired the assets of Kenyan fresh produce and flower producer and exporter, **Finlays Horticulture**, from **James Finlay Ltd**. The business has operations in Kenya, South Africa and Tanzania.
- **Synergy Capital Managers** has acquired 49% of Nigerian manufacturing company **Riggs Ventures West Africa**, through its Synergy Private Equity Fund I (SPEF). Riggs Ventures is primarily engaged in the production of high quality polypropylene sacks.

Retail

- Kenyan cosmetics retailer **Lintons Beauty World** has entered into a franchise deal with **Lancôme**, for distribution in East Africa. The first franchise outlet has been opened in Kenya's Garden City Mall.

- **First Master Retailers**, the Nigerian franchise holder of Spanish supermarket chain **DIA**, opened its first **CityDIA** store in Lagos. It plans to open more than 100 stores by 2020.
- A consortium, led by **Hornbill Developments**, plans to build **Buffalo Mall**, a 14,250m²-shopping complex outside Eldoret town centre in Kenya.
- **Uchumi** supermarket chain, which hired high profile Julius Kipng'etich, the previous COO at Equity Bank, is being drastically reorganised. It is exiting its underperforming businesses in Uganda and Tanzania, closing two branches in Kenya and selling its flagship Ngong Hyper outlet in Nairobi. Uchumi will stabilise its Kenyan operations before re-entering the regional markets.
- Kenyan coffee house chain **Java House**, 90%-owned by **Emerging Capital Partners**, plans to expand its 36-store chain by opening outlets in Kigali, Accra, Dar es Salaam, Lagos and Lusaka in the next five years.
- **Nakumatt** has increased its store number in Uganda, Kenya, Tanzania and Rwanda to 55 through the purchase of **Yako Supermarkets**, which has three stores in Kenya, and the opening of its ninth store in Uganda.
- **Tuskys** has entered the apparel market with the opening of its first **Tuskys Essentials** store. This will target the mass market, offering clothing for men, women and children. It plans to open 20 stand-alone apparel stores in Kenya and Uganda over the next five years.
- Property investors **Delico Achimota Limited** opened a US\$60m mall, **Achimota Retail Centre**, in Ghana. The project, with 14 622 m² of trading space, houses over 45 stores, a number of restaurants, and two anchor tenants (**Shoprite** and **Palace** department store).
- **Chinabuy** launched its online shopping services in Kenya, enabling direct purchases of millions of items from several Chinese manufacturers and online sites.
- Nigerian online retailer **Jumia** has allegedly laid off 300 employees from its Nigerian workforce. Meantime, **Kaymu** online marketplace, which is also backed by Rocket Internet, has closed its Zambian office.
- **Amazon** plans to distribute directly to Nigeria and Kenya, through its Amazon Global programme. Amazon will handle the necessary customs clearances.



Following a period of decline, the **Uqalo Consumer Index** increased marginally in October. The increase can be attributed to a global emerging markets rally as the FED kept rates on hold sighting fears of contagion resulting from global economic weakness. The Uqalo Consumer Index is 18% higher than its long-term average but significantly below the peak of 26.1 made in December 2014.

The Uqalo Consumer Index is a valuation index based on the historical Price-Earnings Ratios of listed consumer businesses in sub-Saharan Africa excluding South Africa. The index is intended to give investors and businesses an indication of current valuation expectations in a historical context. The construction of the index is described in detail at www.uqalo.com

Distribution

- Mombasa, Kenya's port city, is building a food-processing hub to serve regional and global markets. This will harness a portion of East Africa's US\$3.8bn spend on processed food imports. Construction of the hub commences in June 2016.
- In an effort to uplift its weakening business in East Africa, **Kenya Wine Agencies Holdings Ltd (KHEAL)** is acquiring South African **Distell Winemasters (Kenya) Ltd**, from the Distell Group. The business distributes Distell's beverage portfolio in East Africa and generates annual revenue of around US\$2.6m.
- Danish dairy Group **Arla Foods** continues its expansion into Africa through a 50:50 joint venture with **Tolaram** Nigeria, a distributor of FMCG. Expansion continues with a 75:25 joint venture with the Senegalese conglomerate **Attieh Group**. This will provide **Arla** with an expanded distribution network in West Africa.
- **Diageo** has offered US\$208m to increase its stake in **Guinness Nigeria** from 54.3% to 70% at a 40% premium to the prevailing market price.
- **Kellogg's** has agreed to a US\$450m multi-level deal with the African arm of Singapore's **Tolaram**. This includes a joint venture to boost its breakfast and snack food offerings in West

Africa, the acquisition of 50% of **Multipro**, a Nigerian sales and distribution company, and the right to buy a stake in **Tolaram Africa Foods**.

- **The Coca-Cola Company** has partnered with **Teragro**, a subsidiary of **Nigerian Transnational Corporation of Nigeria Plc.**, to supply concentrates for its new line of fruit juice, **Five Alive Pulp Orange**.
- **Nigerian Breweries** launched Nigeria's first locally produced alcoholic apple cider, **Strongbow Apple Cider** is the world's most popular cider brand.
- **Starbucks** has agreed to buy coffee from **Kawacom**, a Ugandan export company.

Manufacturing

- **Unilever** has opened a US\$1.5m factory in Nairobi to double the production of **Vaseline** petroleum jelly.
- **Flame Tree** manufacturing group has acquired Kenyan hair and skincare brands **Miss Africa**, **Black Angel**, **Monalisa** and **Beautyplus** from **Beauty Plus Trading** to strengthen its position in the haircare market.
- **Zambian Breweries** has invested US\$2m in new packaging equipment, to resume local manufacturing of its popular **Castle Life lager**. This is after government reduced the excise

duty on clear beer from 60% to 40%, in order to spur local manufacturing, promote investment and curb smuggling.

- US food producer **Mondelez International** has committed US\$50m to its portfolio company, **Cadbury Nigeria**, to build a new production facility in Lagos to meet the increasing demand for the popular **Bournvita**, a chocolate-flavoured malt drink mix.
- **Afrobeverages and Distillers Limited**, which started as an importer of beverage products in 2002, and moved into local production in 2014 in partnership with South-west Distilleries, has launched 20 different beverages in Nigeria. It has also signed an MOU with **Chellarams** for distribution of the brand.
- Ethiopian Coffee exporter **Abbahawa Trading PLC** has launched a bottled water brand, **One**, to be manufactured at its US\$9.6m Mogel factory.
- The **Indian government** has approved a loan of US\$100m to fund the expansion of **Rivatex East Africa**'s textile operations in Kenya.
- **Weetabix East Africa** has opened a US\$2.5m plant in Nairobi which will increase its production capacity by 60%.
- Nigerian **GZ Industries** will launch a canning factory in Sultan Hamud by June 2016, and the IFC is considering making an US\$80m equity investment in the firm. The factory will have an annual capacity of 2.4 billion cans, and will supply the likes of East African Breweries Limited.
- **AJEAST Nigeria Limited**, a subsidiary of **AJE Group** international soft drink producer, has entered the Nigerian market with the launch of BIG Cola, BIG Orange and BIG Lemon beverages. The company plans to expand to other African countries.

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