The Uqalo Report

NEWS FROM THE CONSUMER SECTOR IN SUB-SAHARAN AFRICA

JULY 2015

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

- Following on from a directive by the previous government of Goodluck Jonathan, the Nigerian Customs Service has lifted the longstanding ban on the importation of textiles into Nigeria. Textile products will instead be subject to an import duty of 35%. This is in line with the ECOWAS Common External Tariff regime.

  The removal of the ban will theoretically have an impact on local textile manufacturers although they have for years had to contend with the large-scale illegal importation of textiles, principally from China and India. At the same time the Central Bank of Nigeria has placed textiles on a list of items for which scarce foreign exchange will not be issued. Again, although this will theoretically dampen textile imports, traders will doubtless continue to access black market forex and import textiles without paying any duties.

  The ruling will be advantageous to the Dutch luxury wax fabric manufacturer Vlisco, whose biggest market is Nigeria, conducted through importers. Vlisco will now be able to trade directly into Nigeria and pursue a proactive marketing and retailing strategy.

  A caution. The position of the incoming Nigerian administration is unknown although President Muhammadu Buhari is on the record as saying he wishes to promote the manufacturing sector.

Private Equity

The FT reported that momentum in African M&A had slowed. Data from Dealogic indicated that the value of African deals for the first 5 months of 2015, at $9.2bn, was 23% down on 2014 and the lowest in 10 years. It suggested that a lot of the decline could be attributed to depressed resource and oil prices. But political uncertainty, particularly in Nigeria, and the weakness of African currencies compared to the US$, also played a role.

It went on to suggest that Seller price expectations remain high in an environment where lots of money is chasing few high-quality opportunities. It noted that Deloitte had reported EBIT multiples for the African consumer market averaging 12.2 against 11.2 in the USA indicating an interest in the potential of the emerging young middle class African consumer.

Retail

- East Africa's largest mall, the US$250m **Garden City**, recently opened in Nairobi. With 50,000m^2 of retail space, the mall will house 120 local and international brands, including the first **Game** hypermarket in Kenya. Game, the South African retailer acquired by **Walmart** to spearhead its African strategy, is already present in a number of SSA countries including Nigeria and Ghana.

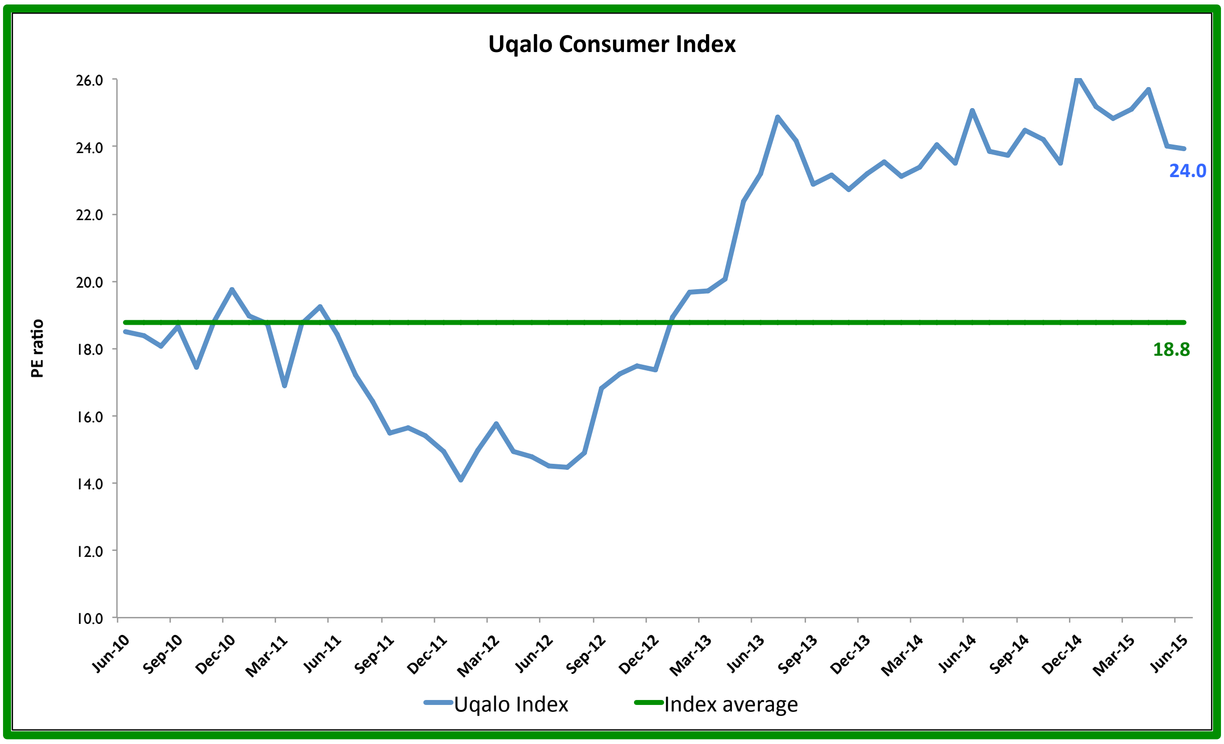
RESEARCH FROM UQALO

As a specialist investor in the sub-Saharan Africa consumer space, Uqalo conducts research and makes it freely available on its website.

Having recently completed and published a report on The African Print Fabric Market, we will shortly be undertaking a project on the African Formal Retail Sector, which we hope to publish before year end.

- Botswanan Supermarket **Choppies**, which recently acquired a secondary listing on the Johannesburg Stock Exchange, has entered the Kenyan market through the acquisition of **Ukwala Supermarkets** for US$10m. 10-store Ukwala is the 5th largest supermarket chain in Kenya after **Nakumatt**, **Tuskys**, **Naivas** and **Uchumi**. **Choppies,** in which **Standard Chartered** holds a 12% stake, aims to add 75 stores in Kenya, Tanzania and Zambia to reach 200 stores across SSA by 2016.

- **Kaymu**, a Kenyan e-tailer in the **Rocket** stable, has witnessed double-digit growth in web traffic attracted US$200m in FDI, with leaders **Jumia and Konga** receiving US$50m last year alone.



The **Uqalo Consumer Index** declined over the last two months as sub-Saharan Africa consumer stocks followed the downward trend of global markets. The **Uqalo Consumer Index** nevertheless still stands at 28% above its 6-year average.

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/uqalo-research/

every month in the eight months since its launch. This has been primarily due to Kenya's fast adoption of technology, the rising middle class, mobile money and mobile data. **Kaymu** and sister company **Jumia** use **African Internet Group's** newly created logistics company, **AIG Express**, to deliver products.

- **Konga**, the Nigerian online shopping website, acquired 100% of **Zinternet Nigeria Limited**, allowing it to offer **Zinternet's** EzPayAfrica mobile payment solutions to merchants.

- Because of a shortage of funds, **Uchumi**, the Kenyan supermarket chain, may have to restructure the business. Uchumi is losing out to better funded competitors, who are locating in malls and spending heavily on branding. The company has secured a US$5m loan and will sell US$20m of non-core assets to pay suppliers.

- According to **THISDAY**, with 80% of the Nigerian population enjoying mobile broadband access by 2018, the Nigerian e-commerce sector is expected to expand to US$13bn in 2018 from US$35m in 2012. Since 2012 the sector has

- According to **MarketLine**, Nigerian apparel retail sales grew at a CAGR of 7.7% between 2010 and 2014 to US$9.4bn. From 2014 to 2019, the industry is expected to expand at a CAGR of 6.8% to US$13bn.

Distribution

- **Unilever Overseas Holdings** has increased its stake in **Unilever Nigeria** to 75% from 50.1%. Unilever has invested over US$132.5m in Nigeria over three years and attracted about US$80m in FDI.

- **Nestlé** announced a 15% reduction in workforce in five counties in Equatorial Africa (accounting for 1% of its total employee base in the SSA region) and the closure of its Rwanda and Uganda offices due to disappointing growth in that region. This will not impact its fast growing markets of South Africa, Swaziland, Lesotho, Namibia and Botswana. The company aims to cut costs and achieve breakeven next year in the Equatorial Africa region. Nestlé remains positive about Africa's future, and is optimistic about its medium term prospects in this region.

Manufacturing

- **C&H**, the African apparel manufacturer established by industry veteran Candy Ma and African entrepreneur and adviser, Helen Hai, has now signed leases on factory premises in both Kenya and Ethiopia and also committed to a second factory in addition to its existing operation in Rwanda.

- **Almeda Textiles**, the Ethiopian textile manufacturer, will be enhancing its capacity so as to increase annual revenues to US$30m by 2018. It anticipates more orders from **H&M**, which it has been supplying since 2013.

- The **IFC** has lent US$101m to **KKR**-backed **Afriflora**, an Ethiopian flower company, to fund a 60% expansion in the company's production, and support a 50% increase in its workforce.

- **TreeTop** juice will return to supermarkets with the opening of a US$5m plant in Juja, Kenya. **The Industrial and Commercial Development Corporation** took a US$1m equity stake. The company estimates annual production of 12m litres and plans to diversify into smoothies and bottled water in the near future.

- In a pilot programme**, Weetabix East Africa**, a leading cereal manufacturer in Kenya, has replaced 50% of wheat imports with local supplies.

- **XSML Capital**, the Dutch investment fund, made an undisclosed growth capital investment in **Ets Lejack**, a Democratic Republic of Congo toilet paper manufacturer.

- **Peter Kuguru**, founder of **Softa Bottling Company**, is diversifying into the sanitary pads business through a US$20m joint venture plant to be established in Nairobi.

- **Hayat Kimya**, the world's fifth-largest branded diaper producer, launched its Molfix brand in Nigeria. It plans to capture a 30% market share in Nigeria in three years. Nigeria will be the production hub for West and Central Africa, with production expected to start in five years.

- The **Fair Competition Commission of Tanzania** issued a notice to **East African Breweries Limited (EABL)** revoking an approval granted in 2010, to acquire a 51% stake in Tanzania's second-largest beer maker **Serengeti Breweries Limited,** as **EABL** flouted the approval terms.

- **Mumias Sugar** received a US$10m bailout from the Kenyan government to repay farmer's debts and maintain machinery. It also hired eight new managers as part of the bailout terms imposed by the government and creditors.

- **Spear Capital** has acquired a 27% stake in **Dendairy**, Zimbabwe's second largest dairy producer, for a combined debt and equity transaction worth US$6m.