Nigeria

Food & Drink Report

Includes 5-year forecasts to 2023

Q3 2019

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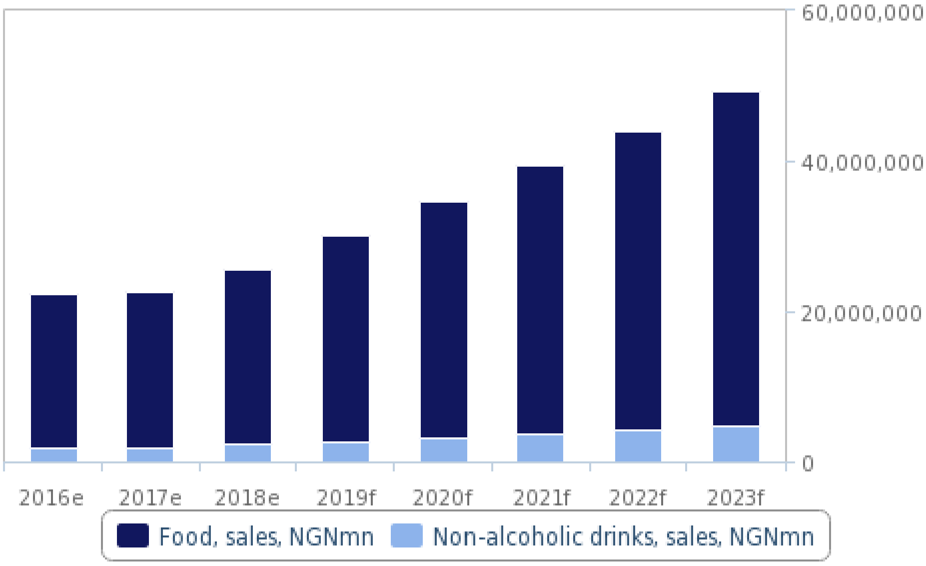
Contents

Key View

Key View: *Despite an improving economic outlook, Nigerian consumers will face a tough 2019 on the back of high inflation. However, because food and drink is considered an essential item, we forecast solid growth in both categories. Both the bread, rice and cereals and the meat and poultry subcategories will drive growth and will see their share of spending increase over the medium term. While in the drinks category, spending on beer will drive growth in the alcoholic drinks sector, and spending on carbonated drinks will drive growth in the non-alcoholic drinks sector.*

Food & Drink Spending
(2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: National statistics, Fitch Solutions

Latest Updates And Industry Developments

- Despite an improving economic outlook, Nigerian consumers will face a tough 2019 on the back of high inflation, which is expected to average 12.4% over the year.
- Total food sales will grow by 17.4% y-o-y in local currency terms over 2019. This is slightly higher than the 13.1% y-o-y growth estimated over 2018. Over the medium term (2019-2023), we forecast that total food sales will expand by an annual growth rate of 14.1% each year. This will take food sales from NGN27trn (USD89.1bn) in 2019 to NGN45.1trn (USD110bn) in 2023.
- Bread, rice and cereals accounts for the largest share of spending in Nigeria, at 41.3% in 2019. This is followed by fresh vegetables (19.2%), meat and poultry (19.2%) and oil and fats (11.5%).
- The total sale of alcoholic drinks will grow by 17.9% y-o-y over 2019, to a value of NGN480bn. Over the next five years, growth in sales will average 14.2%, taking alcoholic drinks sales to a value of NGN789bn by 2023. In volume terms,the growth in the consumption of alcoholic drinks will be more subdued. In 2019, Nigerian adults consumed an average of 17.2 litres per person, growing just 3% y-o-y.
- Beer remains the most popular alcoholic drink in Nigeria, accounting for 97% of total per-capita litres of alcohol consumed. Wine (1.8%) and spirits (1.2%) accounts for the remainder.
- The sale of non-alcoholic drinks will grow by 20.1% y-o-y over 2019 to a value of NGN2.8trn. By 2023, the total sale of non-alcoholic drinks will be worth NGN4.7trn, growing at an annual average of 15.5%.
- The sale of soft drinks dominates the total sales of non-alcoholic drinks, accounting for 60.9% in 2019, compared to the 39.1% of hot drinks.

- In April 2019, **Bourbon House Café**, a Ghana-based fast-food chain group, opened its first coffee and eatery outlet in Nigeria. This is the company's attempt to expand further into West Africa.
- **Nestle Nigeria** posted USD165.2mn profit before tax during its financial year ended December 31 2018. This is up from USD129.5mn in its previous year, representing a 27.5% growth rate.
- In April 2019, The Federal Government of Nigeria unveiled plans of reviewing the excise duty rates imposed on wines and spirits. This follow a push from beverage manufacturers to reduce the rates amid a challenging environment.
- In March 2019, South Africa-based liquor group **Distell Group Limited** announced expansion plans that included, among others, Nigeria. This investment will include its wine, spirits and ready-to-drink categories.
- In January 2019, the **Coca**-**Cola Company** completed its full ownership acquisition of Nigeria's leading juice producer **Chi Limited**.

SWOT

Food & Drink SWOT

SWOT Analysis	
Strengths	• With a rapidly increasing population of around 195mn, Nigeria possesses a potentially dynamic consumer story. • Nigeria's beer industry is rapidly developing and is arguably Africa's most promising. • Nigeria produces a number of key agricultural crops locally and is the world's fourth-largest cocoa grower. • The mass grocery retail sector is growing from an extremely low base, which could attract regional retailers seeking first-mover advantage.
Weaknesses	• The retail sector is relatively underdeveloped with over 80% of shopping still carried out in the more traditional format of corner shops, kiosks and local markets. • High food inflation will negatively impact industry growth. • The market for dairy goods, one of the higher value food subsectors, is restricted by the lack of white goods in most consumers' homes. • High operating costs and weak internal trade systems are two core reasons why international retailers have been hesitant to enter the Nigerian retail market.
Opportunities	• Investment into the highly underdeveloped mass grocery retail industry is likely to attract a larger consumer base. • Rising incomes are attracting consumers into the formal retail sector, away from the historically dominant informal market. • Nigeria has a large and growing urban middle class that is now generating increasing new demand for more formal alcohol brands. • The risks attributed to consuming tap water will very likely benefit the bottled water industry. • Locally sourcing ingredients and raw materials has helped reduce costs for major F&D companies, while also appealing to local preferences.
Threats	• Widespread corruption and an unfavourable regulatory environment remain significant investment deterrents. • Local producers must source a high proportion of their inputs from abroad, thus increasing costs. • Ongoing security concerns in Nigeria's northern regions and high rates of inflation are likely to affect consumer spending. • Economic performance, as well as consumer strength, is largely dependent on oil revenues. • New alcohol duties are a threat to the growth of the sector.

Industry Forecast

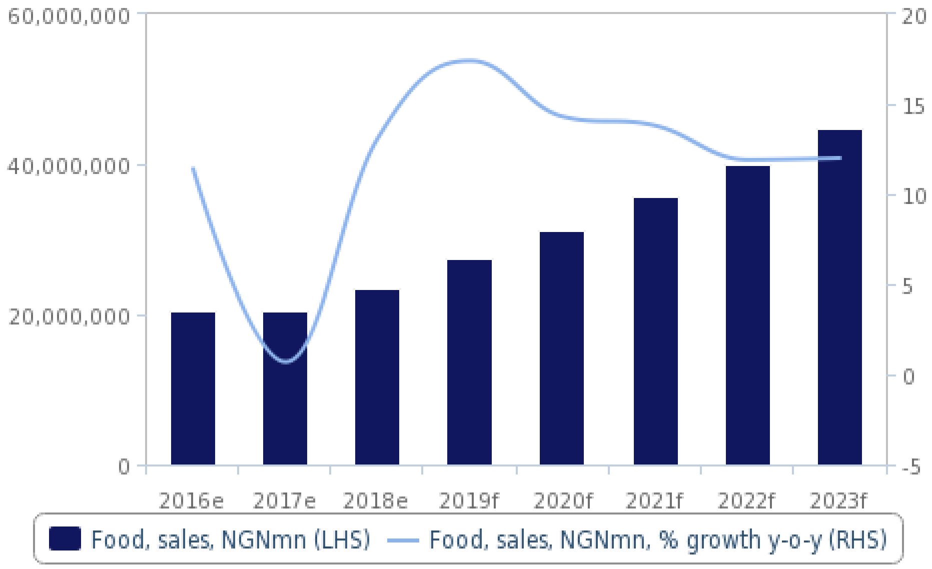
Food

***Key View:** Higher prices will be a key driver of food spending over the 2019-2023 period with inflation over this period averaging 10.8%. Food sales are forecast to outperform inflation, with real growth forecast for most of the subsectors. We expect to see staples such as bread, rice, cereals, pasta, meat, poultry, oils and fat all do well over our forecast period. Non-staple goods, which typically come at a higher price point, such as sugars, fruit and baked goods, will underperform in this weak consumer environment.*

Latest Updates

- Over 2019, total food sales will grow by 17.4% y-o-y in local currency terms. This is slightly higher than the 13.1% y-o-y growth estimated over 2018.
- Over the medium term (2019-2023), we forecast that total food sales will expand by an annual growth rate of 14.1% each year. This take food sales from NGN27trn (USD89.1bn) in 2019, to NGN45.1trn (USD110bn) in 2023.
- Bread, rice and cereals accounts for the largest share of spending in Nigeria, at 41.3% in 2019. This is followed by fresh vegetables (19.2%), meat and poultry (19.2%) and oil and fats (11.5%).
- Both the bread, rice and cereals and meat and poultry sub-categories will see its share of spending increase over the next five years, to 44.4% and 17.5% respectively.
- Following a ban on packaged-sugar imports, the sale of sugar and sugar products will continue to face decreasing sales. In 2019, total sales of sugar and sugar products will be worth NGN189bn. This will contract by an average of 5.9% a year, to a value of NGN141bn by 2023.

Food Sales
(2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: National statistics, Fitch Solutions

Structural Trends

Over 2019, we forecast growth in the sale of food to record at 13.9% in both local currency and US dollar terms. Despite an improving economic outlook, Nigerian consumers will face a tough 2019 on the back of high inflation, which is expected to average 12.4% over the year. This means that much of the growth expansion in food spending is being driven by higher inflation and prices, rather than higher consumer demand. Weak labour market dynamics have resulted in high unemployment and underemployment, which will continue to dampen household spending growth. Food sales will reach NGN45.1trn (USD110bn) in 2023, up from NGN27trn (USD89.1bn) in 2019.

While Nigeria's huge domestic market gives it great potential, we expect that the same infrastructure, labour and business environment issues that have discouraged the development of other light manufacturing industries will limit the efforts to boost local production of processed and value-added foods over our forecast period.

As double-digit inflation will continue to weigh heavily on consumption, we will see certain food categories outperform while others decline. In particular, we expect staple foods to remain resilient while non-essential food items will show a tepid performance, with bread, rice and cereals showing impressive growth. Agriculture is a large sector within the Nigerian economy, but despite this, Nigeria is heavily reliant on imported food, spending around NGN1.3trn on food imports annually. The oil-dependent country will continue to face economic headwinds during 2019 that will result in further currency weakness. A weak naira has translated into accelerating food prices, whereby imported food inflation has exceeded core inflation. The government is working on reforms to encourage domestic investment in the agricultural sector, including a potential buy-back scheme and investment/management of silos, but these plans are in the very early stages.

In our current forecasts, we expect rice and bread to demonstrate strong growth as consumers shift their diets towards filling carbohydrates. Additionally, this category will remain resilient throughout our forecast period. Pasta products will be another outperformer, due to the rising popularity of noodles in Nigeria. The convenience of short cooking times and relative affordability are driving the category's popularity. The confectionery category will underperform over our forecast period as cash-strapped consumers reduce non-essential expenditure. Over the next five years, sales of bread, rice and cereals will grow by an average of 16.1% a year.

Following a strong rebound in sales during 2019-2020, meat sales are expected to show robust growth rates throughout the remainder of the forecast period to 2023. Poultry, along with ham and bacon, will be the fastest-growing categories within this subsector. Oils and fats are forecast to grow rapidly also, averaging annual growth of 20.7% to 2023.

Sugar and sugar products will continue to see decreasing sales over the medium term. In 2017, Nigeria banned packaged-sugar imports to protect local industries and diversify the economy. over 2019, total sales in sugar and sugar related products will fall 1.1% to a value of NGN189bn. Over the next five years, sales will fall by an average of 5.9% a year, taking it to a value of NGN141bn.

FOOD SALES (NIGERIA 2016-2023)

Indicator	2016e	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Food, sales, NGNmn	20,484,992.2	20,635,392.6	23,345,952.3	27,412,485.0	31,327,710.8	35,660,498.2	39,892,145.1	44,678,330.4
Food, sales, NGNmn, % growth y-o-y	11.4	0.7	13.1	17.4	14.3	13.8	11.9	12.0
Bread, rice and cereals, sales, NGNmn	7,931,403.3	8,089,205.6	9,394,430.4	11,326,705.6	13,221,237.6	15,354,686.6	17,467,757.5	19,831,435.4

Indicator	2016e	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Bread, rice and cereals, sales, NGNmn, % growth y-o-y	14.3	2.0	16.1	20.6	16.7	16.1	13.8	13.5
Pasta products, sales, NGNmn	232,706.3	232,830.9	255,526.2	289,571.4	320,616.9	353,676.0	384,372.9	418,441.3
Pasta products, sales, NGNmn, % growth y-o-y	8.3	0.1	9.7	13.3	10.7	10.3	8.7	8.9
Baked goods, sales, NGNmn	49,866.3	48,157.6	50,156.1	52,798.6	54,379.7	55,801.2	56,472.9	56,905.6
Baked goods, sales, NGNmn, % growth y-o-y	0.5	-3.4	4.1	5.3	3.0	2.6	1.2	0.8
Meat and Poultry, sales, NGNmn	2,674,694.0	2,689,860.6	3,213,890.2	4,050,963.1	4,881,171.1	5,824,147.6	6,754,528.9	7,829,374.7
Meat and Poultry, sales, NGNmn, % growth y-o-y	17.0	0.6	19.5	26.0	20.5	19.3	16.0	15.9
Fish and fish products, sales, NGNmn	1,554,229.1	1,524,840.6	1,620,135.3	1,770,398.4	1,898,180.4	2,030,490.2	2,147,242.1	2,276,466.4
Fish and fish products, sales, NGNmn, % growth y-o-y	4.8	-1.9	6.2	9.3	7.2	7.0	5.7	6.0
Dairy, sales, NGNmn	423,242.0	436,161.7	480,052.2	523,854.0	564,473.5	609,438.6	653,238.8	702,856.2
Dairy, sales, NGNmn, % growth y-o-y	9.8	3.1	10.1	9.1	7.8	8.0	7.2	7.6
Oils and Fats, sales, NGNmn	2,010,740.2	2,024,357.2	2,454,001.1	3,143,521.7	3,831,618.2	4,616,540.0	5,393,956.6	6,294,171.2
Oils and Fats, sales, NGNmn, % growth y-o-y	18.7	0.7	21.2	28.1	21.9	20.5	16.8	16.7
Fresh and preserved fruit, sales, NGNmn	306,079.4	285,053.7	282,322.3	284,959.6	282,838.3	279,665.1	274,058.2	268,796.3
Fresh and preserved fruit, sales, NGNmn, % growth y-o-y	-2.0	-6.9	-1.0	0.9	-0.7	-1.1	-2.0	-1.9

Indicator	2016e	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Fresh vegetables, sales, NGNmn	4,699,176.8	4,702,735.1	4,953,380.5	5,271,514.3	5,528,613.6	5,746,317.2	5,932,794.0	6,133,040.6
Fresh vegetables, sales, NGNmn, % growth y-o-y	5.6	0.1	5.3	6.4	4.9	3.9	3.2	3.4
Sugar and sugar products, sales, NGNmn	190,784.4	189,965.6	190,926.8	188,950.7	182,663.9	172,018.6	158,460.7	140,578.9
Sugar and sugar products, sales, NGNmn, % growth y-o-y	1.3	-0.4	0.5	-1.0	-3.3	-5.8	-7.9	-11.3
Other food products, sales, NGNmn	412,070.4	412,224.1	451,131.2	509,247.6	561,917.7	617,717.0	669,262.6	726,263.8
Other food products, sales, NGNmn, % growth y-o-y	8.1	0.0	9.4	12.9	10.3	9.9	8.3	8.5

e/f = Fitch Solutions estimate/forecast. Source: National statistics, Fitch Solutions

Drink

Key View: *Both alcoholic drinks and non-alcoholic drinks will see decent growth over the medium term. Growth in the alcoholic drinks category will largely be driven by beer, while the spirits sectors offers some promising opportunities. While in the non-alcoholic drinks category, the continued dominance of carbonated drinks will drive growth in the soft drinks category, and tea and coffee sales will report strong growth in the hot drinks category.*

Latest Updates

- The total sale of alcoholic drinks will grow by 17.9% y-o-y over 2019 to a value of NGN480bn. Over the next five years, growth in sales will average 14.2%, taking alcoholic drinks sales to a value of NGN789bn by 2023.
- In volume terms, the growth in the consumption of alcoholic drinks will be more subdued. In 2019, Nigerian adults consumed an average of 17.2 litres per person, growing just 3% y-o-y.
- Beer remains the most popular alcoholic drink in Nigeria, accounting for 97% of total per-capita litres of alcohol consumed. Wine (1.8%) and spirits (1.2%) accounts for the remainder.
- The sale of non-alcoholic drinks will grow by 20.1% y-o-y over 2019 to a value of NGN2.8trn. By 2023, the total sale of non-alcoholic drinks will be worth NGN4.7trn, growing at an average rate of 15.5% a year.
- The sale of soft drinks dominates the total sales of non-alcoholic drinks, accounting for 60.9% in 2019, compared to the 39.1% of hot drinks. Over the next five years, soft drinks will see its share decrease by 3%, to 57.9% by 2023, while hot drinks will see its share increase to 42.1%.

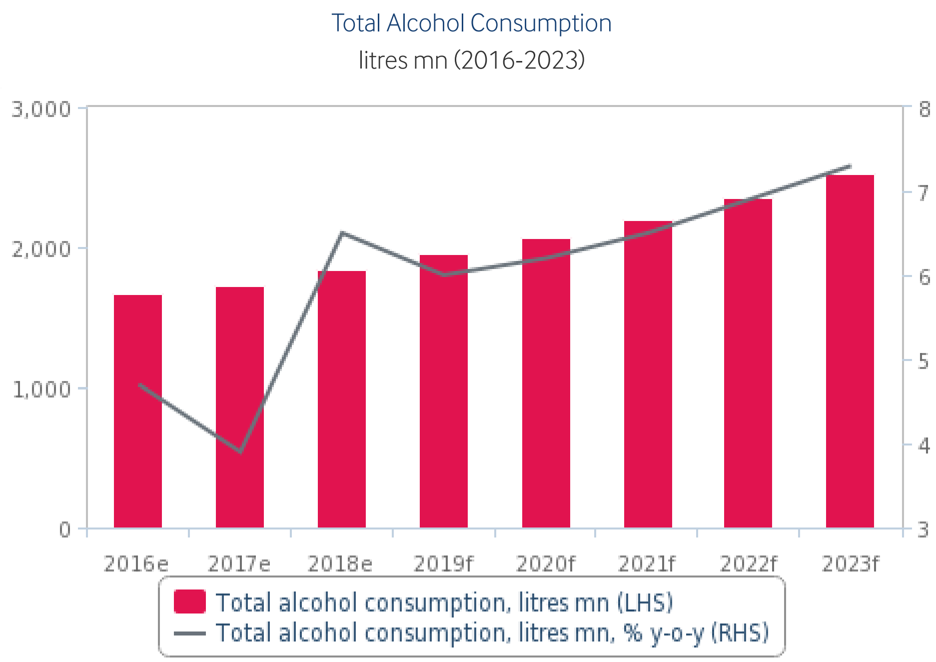
Structural Trends

Alcoholic Drinks

Over 2019, we forecast Nigerian consumers to spend a total of NGN480bn on alcoholic drinks, a 17.9% y-o-y increase from the year before. This growth will be sustained over the next five years, where we foresee alcoholic drinks spending to grow by an average of 14.2% a year, taking total spending to NGN789bn by 2023. Per-capita growth is more subdued, at an average of 11.3% a year, but this is mostly due to rapid population growth over the period. Per-capita spending on alcoholic drinks will grow from NGN2,390 in 2019 to NGN3,551 by the end of 2023.

In June 2018, President Muhammadu Buhari approved an amendment to the excise duty rates for alcoholic beverages and tobacco to go into affect from June 4 2018. The new duties have been applied at different levels across beer, wine and spirits and take place over three years to 2020. Previously, duties were applied as a percentage tax on alcoholic drinks but this will be replaced by taxes of fixed amounts based on volume. Following the implementation of this, beer and stout will see duties of NGN30 per litre in 2018, rising to NGN35 per litre in each of 2019 and 2020. Wines will be charged at NGN125 per litre in 2018 and up to NGN150 per litre in 2019 and 2020. Finally, spirits will see NGN150 per litre in 2018, NGN175 per litre in 2019 and NGN200 per litre in 2020.

In consumption terms, growth will be a lot more subdued. In 2019, Nigerian adults consumed an average of 17.2 litres per person, growing just 3% y-o-y. This will steadily rise at an average rate of 4% over the next five years, taking the average alcohol consumed by an adult to 19.9 litres by 2023. Beer remains the most popular alcoholic drink in Nigeria, accounting for 97% of total per-capita litres of alcohol consumed. Wine (1.8%) and spirits (1.2%) accounts for the remainder.



e/f = Fitch Solutions estimate/forecast. Source: WHO, Fitch Solutions

Beer will remain the alcoholic beverage of choice in Nigeria and the category is set to show healthy growth in consumption (volume) over the next five years, averaging growth of 6.6% per year up to 2023. The growth will be driven by the value beer segment, particularly in the near term, as disposable incomes remain under pressure. Corroborating our view, AB InBev has seen strong revenue growth over 2017 in Nigeria and will bring Budweiser lager into the market in 2018 following its acquisition of **SABMiller** and opened a new USD250mn brewery in August 2018. SABMiller's portfolio focuses on the value beer segment, with its popular Hero and Trophy brands benefiting from price-sensitive consumers.

The industry has a strong multinational presence and is one of the few African beer markets to have attracted more than two major multinational brewers. The market leader is **Nigerian Breweries**, majority-owned by Dutch brewer **Heineken**, which commands around 65% of the market. The number two brewer is **Guinness Nigeria** (**Diageo** has a significant equity position in the brewer). The sheer size of the market - with Nigeria's youthful population nearing 190mn - has meant that Heineken and Guinness have been able to generate significant volume and earnings growth without having to significantly invest in low-cost beer. SABMiller estimates the home-brew sector in Africa to be worth about USD3bn.

Nigeria's spirits segment is underdeveloped and growing from a relatively small base. As a result, we forecast average annual growth of 10.6% in this category over 2019-2023. Strong growth in this segment will stem from low base effects along with shifting consumption patterns among higher- to middle-income consumers who are starting to adopt the consumption of ready-to-drink alcoholic beverage mixes. We hold the view that Diageo is well positioned to benefit from this trend throughout our forecast period.

As wine is imported into Nigeria from international markets, the depreciation of the currency, combined with the economic recession in 2016 makes wine a relatively more expensive option. As such, the local market for wine is small and underdeveloped. Over the next five years, the consumption of wine will grow by an average of 4.2%.

TOTAL ALCOHOLIC DRINKS SPENDING & CONSUMPTION (NIGERIA 2016-2023)

Indicator	2016e	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Alcoholic drinks spending, NGNbn	356.19	358.95	407.54	480.39	550.54	628.17	703.98	789.73
Alcoholic drinks spending, NGN % y-o-y	11.82	0.78	13.54	17.88	14.60	14.10	12.07	12.18
Alcoholic drinks spending, NGN per household	6,836.94	6,581.59	7,178.08	8,127.59	8,973.09	9,863.09	10,680.96	11,543.18

Indicator	2016e	2017e	2018e	2019f	2020f	2021f	2022f	2023f
Alcoholic drinks spending, NGN per capita	1,915.11	1,880.46	2,080.60	2,390.47	2,670.56	2,970.81	3,246.49	3,551.75
Total alcohol consumption, litres mn	1,664.4	1,729.7	1,841.7	1,951.6	2,071.7	2,205.9	2,357.9	2,530.3
Total alcohol consumption, litres mn, % y-o-y	4.7	3.9	6.5	6.0	6.2	6.5	6.9	7.3
Total alcohol consumption, litres per capita	16.0	16.2	16.7	17.2	17.8	18.4	19.1	19.9
Beer, litres mn	1,611.6	1,676.1	1,785.1	1,892.2	2,009.5	2,140.1	2,286.7	2,451.4
Beer, litres mn, % y-o-y	4.7	4.0	6.5	6.0	6.2	6.5	6.9	7.2
Beer, litres per capita	15.5	15.7	16.2	16.7	17.2	17.8	18.5	19.3
Wine, litres mn	33.6	33.9	35.0	36.0	37.1	38.6	40.6	43.0
Wine, litres mn, % y-o-y	-0.5	0.8	3.3	3.0	3.1	4.0	5.0	6.0
Wine, litres per capita	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Spirits, litres mn	19.1	19.7	21.7	23.4	25.1	27.2	30.7	35.9
Spirits, litres mn, % y-o-y	16.5	3.1	10.0	8.0	7.0	8.5	12.8	17.1
Spirits, litres per capita	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3

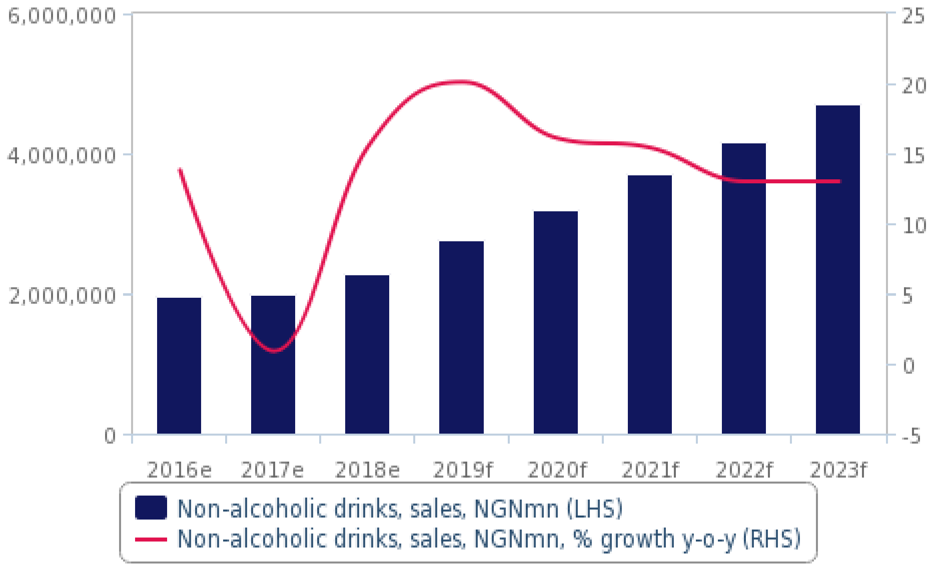
e/f = Fitch Solutions estimate/forecast. Source: National sources, Fitch Solutions

Non-Alcoholic Drinks

The sale of non-alcoholic drinks will grow by 20.1% y-o-y over 2019 to a value of NGN2.8trn. This will be an acceleration from the 15.5% y-o-y growth estimated for 2018. While still in the double digits, growth will slow over the next five years to an average of 15.5% a year, but with each year slower than the previous. By 2023, the total sale of non-alcoholic drinks will be worth NGN4.7trn.

Broken down, the sale of soft drinks dominates the total sales of non-alcoholic drinks, accounting for 60.9% in 2019, compared to the 39.1% of hot drinks. Over the next five years, soft drinks will see its share decrease by 3%, to 57.9% by 2023, while hot drinks will see its share increase to 42.1%.

Non-Alcoholic Drinks Sales
(2016-2023)



e/f = Fitch Solutions estimate/forecast. Source: National statistics, Fitch Solutions

Carbonated drinks dominate the sale of soft drinks, accounting for 71.4% of total carbonated sales in 2019. This is followed by fruit and vegetable juices and bottled water, at 22.2% and 6.4% respectively. Over the next five years, carbonated drinks will see its share increase to 74.1%, while both fruit and vegetable juices and bottled water will see their shares fall, to 20.0% and 5.9% respectively.

Carbonated soft drinks are set for robust growth over our forecast period due to intensifying competition in the segment. Youthful demographics and low income levels, which are favourable conditions for carbonates, will continue to drive growth. Furthermore, this particular segment tends to perform well in underdeveloped soft drink markets. An improving economic outlook and ongoing investment by the franchise bottler of **PepsiCo** and the Nigerian subsidiary of the core Coca-Cola bottler **Coca-Cola Hellenic** into marketing and distribution will bedrock headline volume and value growth over the forecast period to 2023. We project growth to average 15.1% per year between 2019 and 2023 for carbonated soft drinks.

Bottled water sales will benefit from a lack of access to safe drinking water. Gradually rising incomes will be important drivers behind this growth too. Premiumisation will come into play as the bottled water industry becomes more segmented and as competition grows and consumers' tastes and preferences evolve, though this will be a slow process. Similarly, growth in fruits and vegetable juices will be slower than soft drinks. Investment in juice manufacturers from Coca-Cola in **Chi Ltd** and **DPEL** in **AJEAST** during 2018, both point to growth opportunities in this space.

NON-ALCOHOLIC DRINKS SALES (NIGERIA 2016-2023)								
Indicator	**2016e**	**2017e**	**2018e**	**2019f**	**2020f**	**2021f**	**2022f**	**2023f**
Non-alcoholic drinks, sales, NGNmn	1,972,965.5	1,990,087.8	2,298,671.6	2,761,626.2	3,207,355.3	3,700,621.7	4,182,373.8	4,727,257.3
Non-alcoholic drinks, sales, NGNmn, % growth y-o-y	13.8	0.9	15.5	20.1	16.1	15.4	13.0	13.0
Coffee, teas and other hot drinks, sales, NGNmn	759,726.2	752,329.8	878,124.7	1,079,413.4	1,277,101.1	1,503,142.4	1,727,577.2	1,990,294.4
Coffee, teas and other hot drinks, sales, NGNmn, % growth y-o-y	14.3	-1.0	16.7	22.9	18.3	17.7	14.9	15.2
Soft drinks, sales, NGNmn	1,213,239.3	1,237,758.0	1,420,546.9	1,682,212.8	1,930,254.2	2,197,479.3	2,454,796.6	2,736,962.9
Soft drinks, sales, NGNmn, % growth y-o-y	13.5	2.0	14.8	18.4	14.7	13.8	11.7	11.5
Fruit and vegetable juices, sales, NGNmn	294,090.5	290,456.0	323,646.9	372,756.5	416,100.9	461,287.5	502,061.3	546,143.1
Fruit and vegetable juices, sales, NGNmn, % growth y-o-y	10.1	-1.2	11.4	15.2	11.6	10.9	8.8	8.8
Mineral or spring waters, sales, NGNmn	84,194.2	83,173.0	93,063.1	107,843.3	121,082.5	135,077.5	147,904.1	161,965.8
Mineral or spring waters, sales, NGNmn, % growth y-o-y	10.4	-1.2	11.9	15.9	12.3	11.6	9.5	9.5
Carbonated drinks, sales, NGNmn	834,954.6	864,129.0	1,003,836.9	1,201,613.1	1,393,070.8	1,601,114.3	1,804,831.1	2,028,854.0
Carbonated drinks, sales, NGNmn, % growth y-o-y	15.0	3.5	16.2	19.7	15.9	14.9	12.7	12.4

e/f = Fitch Solutions estimate/forecast. Source: National Statistics, Fitch Solutions

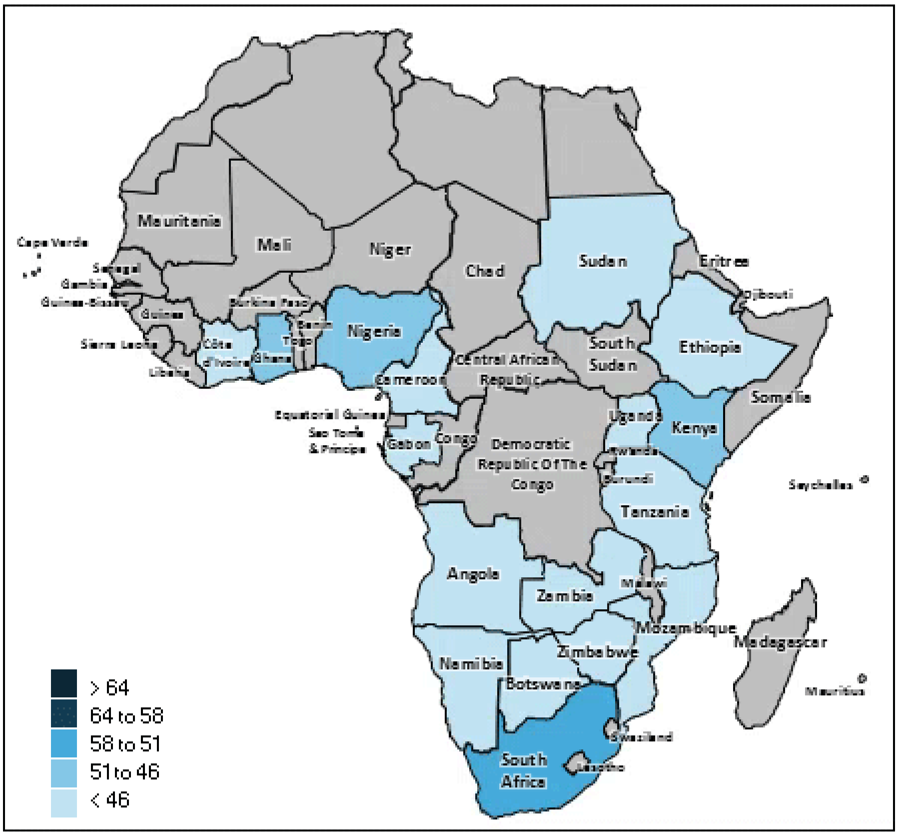
Industry Risk/Reward Index

Sub-Saharan Africa Food & Non-Alcoholic Drinks Risk/Reward Index: Ethiopia Gains, Cote D'Ivoire Falls

Key View: *Sub-Saharan Africa (SSA) is the lowest ranked region in our Food & Non-Alcoholic Drinks Risk/Reward Index for Q319 with an average score of 38.3 behind fifth placed Latin America (LatAm). South Africa is a regional outperformer with an RRI score of 51.6 in Q319 and is the only country in the region to score above the global average. Ethiopia is progressing up the ranks in the Index, due to our positive outlook for food and non-alcoholic drinks spending, while our short-term view on Cote d'Ivoire has adapted due to mounting political risks.*

SSA Underperforms Globally

Sub-Saharan Africa - Food & Non-Alcoholic Drinks Risk/Reward Heat Map



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

Important Note: Our Food & Drink Risk/Reward Index (RRI) includes two Food & Drink Risk/Reward indices: our Food & Non-Alcoholic Drinks RRI and our Alcoholic Drinks RRI. The first quantifies the risks and rewards associated with food and non-alcoholic drink sales in each country, while the other quantifies the risks and rewards associated with the alcoholic drinks sector.

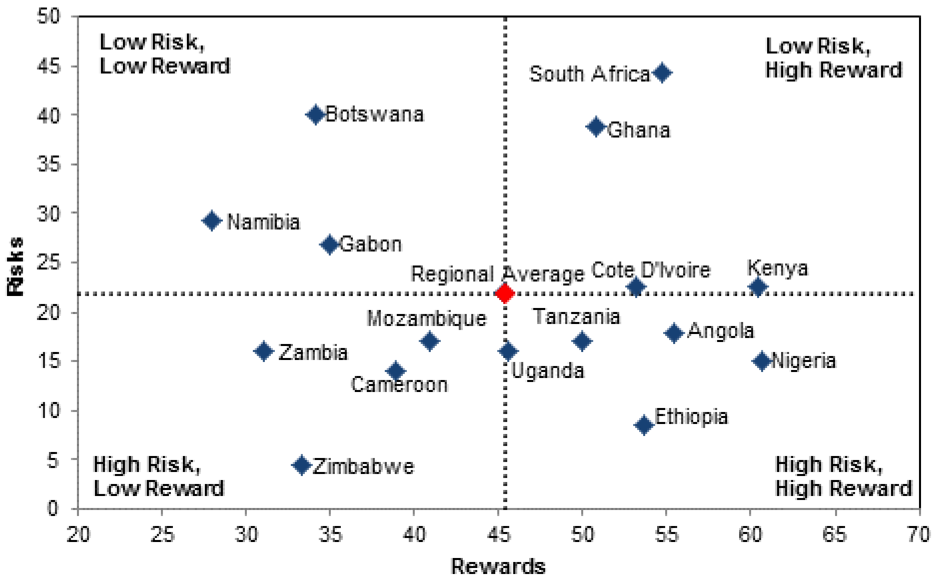
Main Regional Features And Latest Updates

- Sub-Saharan Africa (SSA) is again the weakest performing region in our Food & Non-Alcoholic Drinks RRI for Q319. With a regional average score of 38.3 out of 100, compared to the global average of 50.0, SSA ranks well behind the five other regions we cover.

- We have consistently advocated for a more cautious view on the assumed trajectory of the SSA consumer story. Rather than the rise of an emerging middle class driving spending on premium brands, we maintain our belief that the slow formalisation process will weigh on the idea of an 'African consumer boom' and that fast-moving consumer goods (FMCG) companies must focus their strategy on high volumes, low margins, localisation and embracing the informal sector.
- Ethiopia places seventh in Q319 from 11th in Q219 with an overall RRI score of 40.1 out of 100. The country's ranking is strengthened by our favourable outlook for food and non-alcoholic drinks spending over the medium-term.
- Rising political risks pose a risk to our short-term outlook for Cote d'Ivoire's food and drinks sector. It ranks sixth in the region in Q319, slipping from fifth position in Q219. However, our medium term outlook is tempered towards the positive side due to its improving rewards profile.
- South Africa remains the most attractive market in SSA and the only country above the global average, scoring 51.6 in Q319. The country offers the best balance between Risks and Rewards, with the food retail market relatively well developed. Political and economic risks are to the downside, with South Africa seeing its Country Risk score consistently revised downwards in the last few quarters.
- Ghana continues to be an outperformer in Q319 with an RRI score of 47.3 maintaining its third position regionally from Q219. The country offers some of the fastest growth rates in the region, with our five year forecast of household spending for Ghana the eighth highest regionally.
- While offering competitive Rewards scores, countries across SSA consistently fall short in terms of risks. In terms of overall Risk scores, of the bottom 20 countries around the world, nine are from the SSA region. Sudan, Zimbabwe and Zambia are three countries we highlight in this report that offer relatively good Rewards scores, but both Country and Industry Risks for these states significantly weigh down their overall RRI score.

Many SSA Country's High Risks Jeopardise Potential Rewards

Sub-Saharan Africa - Food & Non-Alcoholic Drinks Risk/Reward Index



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

Ethiopia Gaining, Cote D'Ivoire Slipping

Ethiopia places seventh in Q319 from 11th in Q219 with an overall RRI score of 40.1 out of 100. The country's ranking is strengthened by our favourable outlook for food and non-alcoholic drinks spending over the medium term. Ethiopia has one the fastest growing economies in Sub-Saharan Africa which is contributing positively to business and consumer confidence. Our

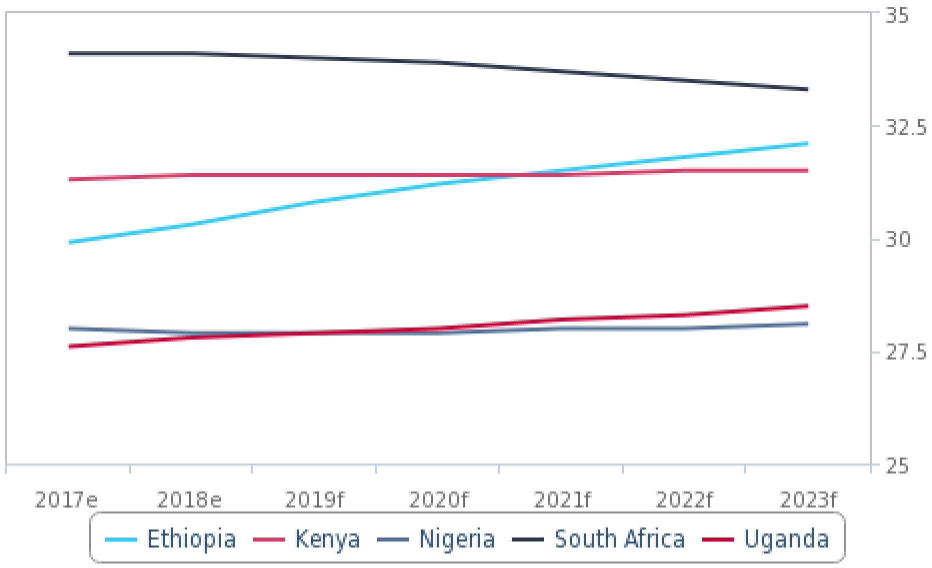
Country Risk team forecasts real GDP growth of 8.0% over our 2019-2023 forecast period.

In terms of rewards, favourable demographics make Ethiopia attractive for food and drink majors. It has the second largest population in SSA with 110mn people after Nigeria which has the largest population with 201mn people and presents significant opportunities for food and drink majors due to the underdeveloped nature of the market. There is a large young adult population (20-39 years old) who make up around 31% of the total population and are the main target market for food and drink majors.

Risks that pose a challenge to investors in this country is urbanisation rates, which remain low with only 21.2% of the population living in urban areas in 2019 thereby increasing the costs of getting goods to consumers. This is evidenced in Ethiopia's low industry risk score (6.9 out of 100) which considers the regulatory environment, food and drink formalisation and logistics risk in the country.

Large Young Adult Population Presents Opportunities

Sub-Saharan Africa - Young Adult Population, % Of Total Population (2017-2023)



e/f = Fitch Solutions estimate/forecast. Source: United Nations, Fitch Solutions

Rising political risks pose a risk to our short-term outlook for Cote d'Ivoire's food and drinks sector. It ranks sixth in the region in our Food and Non-Alcoholic Drinks Risk/Reward Index for Q319, slipping from fifth position in Q219. We expect the risk of social instability to increase in the run-up to presidential elections in 2020 while discontent among factions in the military will also pose potential security threats. Our Short-Term Political Risk score for Cote d'Ivoire is lower at 12.3 in Q319 from 13.2 in Q219 on the back of a worsening regional security profile. The 2020 election will see a spike in instability, however we at Fitch Solutions think that a return to a civil war is unlikely if the incumbent Alassane Ouattara wins, or if an opposition candidate secures a clear majority that is respected (see, '*Instability To Rise In Côte D'Ivoire As Election Looms*,' March 22 2019).

While we note the short-term political risks in Cote d'Ivoire, our medium term outlook is tempered towards the positive side due to its improving rewards profile. Cote d'Ivoire's Industry Rewards score improved by 6.9 points in Q319 to 58.2 from 51.3 in Q219 due to an improved five year real household spending score. We forecast real household spending to grow by an annual average of 7.5% over the 2019-2023 period. Total food and drinks spending will increase to XOF5.1trn (USD14.7bn) in 2023, up from XOF5.1tr (USD9.9bn) in 2019 due to strong consumer demand, which will be driven by favourable demographics and rising disposable incomes. As a result we believe that Cote d'Ivoire will remain of great interest to food and drinks investors, but that they will be cautious about investing prior to the elections.

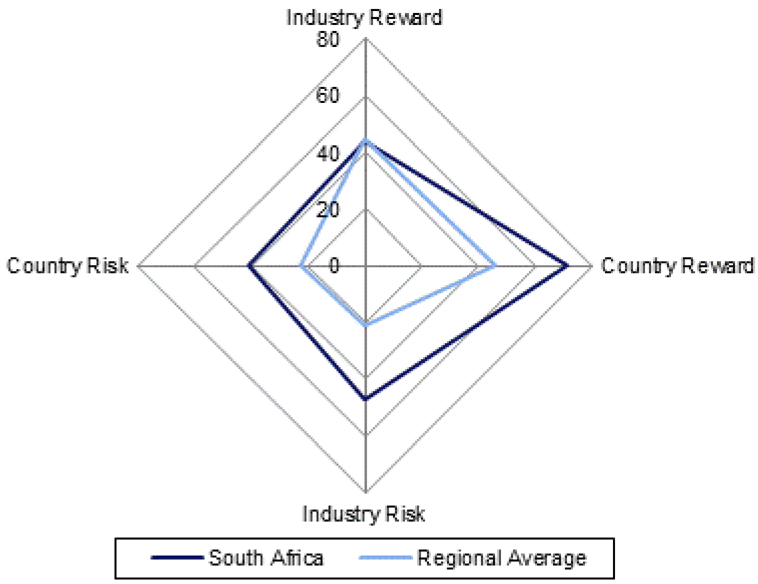
South Africa Retains Top Position, But Risks Remain

South Africa remains the top market in our Food and Non-alcoholic Drinks RRI across Sub-Saharan Africa for the second quarter of 2019. By regional standards, South Africa has an attractive Risks score (44.3 out of 100), benefiting from a relatively reliable logistics and regulatory environment. South Africa is widely regarded by food and drink majors as a springboard for entry and expansion into the wider SSA region. The food retail sector is also the most developed in SSA, while with the largest proportion of middle-income earners in the region provides some opportunities for premiumisation.

Our Risks score for South Africa has slightly improved to 44.3 in Q319 from 44.1 in Q219. This is mainly due to an improvement in the Country Risk profile when compared to previous quarters. In our Q319 update the short-term economic risk score has improved by 9.9 points to 34.9 from a score of 25.0 in Q219 due to our improved outlook for growth in 2019 following sluggish expansion in 2018. Furthermore our short-term political risk score remains unchanged at in Q319 from Q219 after trending lower in previous quarters. However, we expect investors to remain cautious ahead of the next election due in May 2019 because of the potential impact on the policymaking environment. While we at Fitch Solutions expect the ruling African National Congress (ANC) to win a majority in the election, there is a risk that efforts to secure victory may result in a shift leftward in terms of politics and rhetoric. Pursuit of left-leaning rhetoric could potentially deter investors, with a negative impact on overall expansion (see '*2019 General Election Will Heighten Risks To Investment Environment In South Africa*' October 1 2018).

South Africa Remains The Top Market In SSA

South Africa - Rewards & Risks Scores



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

South Africa's overall rewards score improved slightly to 51.6 out of 100 in Q319 from 51.5 in Q219. However it remains below the Q119 score of 52.4 as the rewards profile remains less favourable as South African consumers have had to overcome a number of challenges in the past year, which includes VAT hikes, sugar tax, high unemployment and stagnant growth.This has impacted all consumer classes, including the middle class. However, we still hold a positive outlook for the South African food and drinks sector over the medium term (2019-2023) and expect the sector to expand strongly over the next five years as consumer confidence returns. This should encourage spending on higher-value items as diets shift towards trends such as health consciousness, greater awareness of food origin and innovative products. South Africa offers one of the few markets in Africa where we are seeing a premiumisation trend driving high-value spending, rather than being purely focused on high volumes consumption.

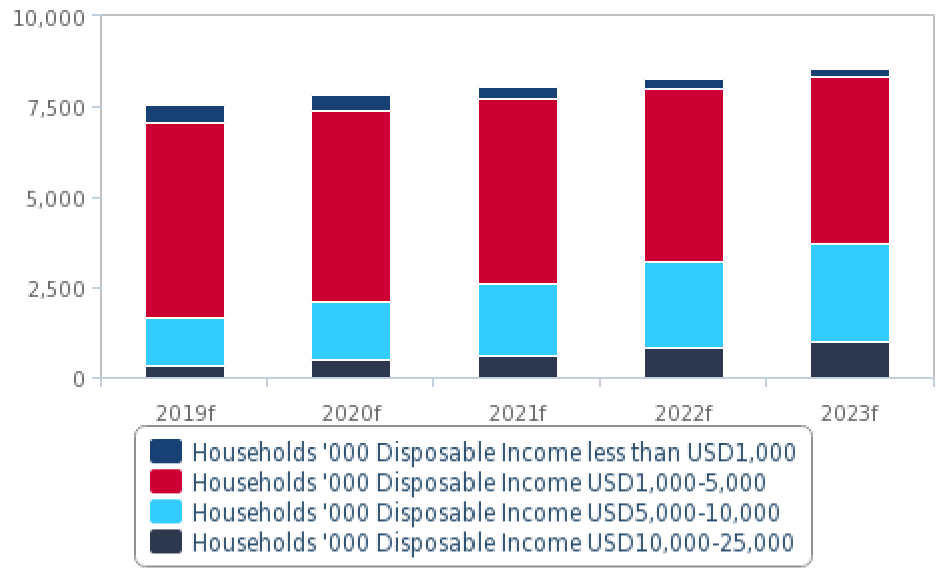
Ghana A Regional Bright Spot

Ghana has consistently posted improved scores in the first half of 2019 and over 2018. In Q219, Ghana made it into the top three SSA countries, where it remains in Q319. Ghana's overall RRI score further improved to 47.3 in Q319 from a score of 45.4 in Q219. This score improvement is mostly as a result of continuing upticks to its Country Reward scores including rising incomes and from growth in the country's mass affluent class. This indicator defines the proportion of households with an income that exceeds USD10,000. It excludes those in poverty but demonstrates the potential demand for branded products. Over the next five years, the number of households forecast to earn above USD10,000 will grow significantly, taking this groups proportion of total households from 5.4% in 2019, to 13.5%, by the end of 2023.

Within the Industry Rewards score, total food and drink expenditure has increased by 11.3 points this quarter. Over 2019, we forecast real household spending to grow at a rate of 6.2%, after growing at an estimated 8.8% in 2018. Supported by strong economic growth, both employment and wages have seen strong growth in the country. This continues to support household income levels, affording households the opportunity to afford a wider variety of goods.

Growing Spending Class Offers Opportunities For Retailers

Ghana - Household Income Breakdown (2019-2023)



f = Fitch Solutions forecast. Source: National sources, Fitch Solutions

The political environment has also stabilised across the country, with Ghana offering the least political risky economy in Africa, over the short and long term. In late 2018, Ghana's Extended Credit Facility (ECF) with the IMF, came to an end. This will lift a major constraint on Ghanaian policy-makers. Social stability will be supported by stable inflation, easier credit access and higher government spending on some popular measures.

SSA FOOD & NON-ALCOHOLIC DRINKS RISK/REWARD INDEX

	Industry Rewards	Country Rewards	REWARDS	Industry Risks	Country Risks	RISKs	RRI	Regional Rank	Global Rank
South Africa	43.7	71.2	54.7	47.5	41.0	44.3	51.6	1	52
Kenya	65.7	52.4	60.4	20.8	24.2	22.5	49.0	2	57
Ghana	51.9	49.3	50.8	34.6	43.2	38.9	47.3	3	64
Nigeria	60.7	60.6	60.7	13.5	16.6	15.1	47.0	4	67
Angola	60.1	48.3	55.4	17.0	18.8	17.9	44.1	5	73
Cote D'lvoire	58.2	45.8	53.2	21.7	23.3	22.5	44.0	6	74
Ethiopia	49.7	59.7	53.7	6.9	10.2	8.6	40.1	7	80
Tanzania	49.1	51.4	50.0	10.4	23.7	17.1	40.1	8	81
Uganda	46.2	44.6	45.6	12.3	19.8	16.0	36.7	9	86
Botswana	35.5	32.1	34.2	30.8	49.4	40.1	35.9	10	87
Mozambique	40.9	41.0	40.9	24.5	9.4	17.0	33.8	11	92
Gabon	40.9	26.2	35.0	33.3	20.5	26.9	32.6	12	94
Cameroon	33.3	47.2	38.9	12.3	15.7	14.0	31.4	13	95
Namibia	27.4	28.8	27.9	28.9	29.5	29.2	28.3	14	98
Zambia	25.5	39.4	31.0	17.9	14.0	16.0	26.5	15	100
Zimbabwe	28.0	41.3	33.3	3.8	5.0	4.4	24.6	16	102
Global Average	50.0	50.0	50.0	50.0	50.0	50.0	50.0	~	~
Regional Average	44.8	46.2	45.4	21.0	22.8	21.9	38.3	~	~

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA FOOD & NON-ALCOHOLIC DRINKS INDUSTRY REWARDS

	F&D Spending Per Capita	Real HH Spend 5-Year Growth	Total F&D Expenditure	Industry Rewards	REWARDS
South Africa	18.9	57.5	54.7	43.7	54.7
Kenya	33.0	93.4	70.8	65.7	60.4
Ghana	26.4	85.8	43.4	51.9	50.8
Nigeria	25.5	70.8	85.8	60.7	60.7
Angola	31.1	95.3	53.8	60.1	55.4
Cote D'Ivoire	30.2	99.1	45.3	58.2	53.2
Ethiopia	14.2	75.5	59.4	49.7	53.7
Tanzania	12.3	94.3	40.6	49.1	50.0
Uganda	13.2	87.7	37.7	46.2	45.6
Botswana	16.0	88.7	1.9	35.5	34.2
Mozambique	8.5	92.5	21.7	40.9	40.9
Gabon	47.2	64.2	11.3	40.9	35.0
Cameroon	6.6	84.9	8.5	33.3	38.9
Namibia	23.6	52.8	5.7	27.4	27.9
Zambia	9.4	54.7	12.3	25.5	31.0
Zimbabwe	10.4	59.4	14.2	28.0	33.3
Global Average	50.0	50.0	50.0	50.0	50.0
Regional Average	20.4	78.5	35.4	44.8	45.4

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA FOOD & NON-ALCOHOLIC DRINKS COUNTRY REWARDS	Population	Mass Affluent Class	Urban Population	Spending Population	Country Rewards	REWARDS
South Africa	79.2	39.6	79.2	86.8	71.2	54.7
Kenya	76.4	6.6	57.5	68.9	52.4	60.4
Ghana	59.4	14.2	62.3	61.3	49.3	50.8
Nigeria	94.3	7.5	94.3	46.2	60.6	60.7
Angola	64.2	22.6	66.0	40.6	48.3	55.4
Cote D'Ivoire	58.5	17.9	55.7	50.9	45.8	53.2
Ethiopia	89.6	10.4	68.9	69.8	59.7	53.7
Tanzania	80.2	13.2	67.0	45.3	51.4	50.0
Uganda	73.6	3.8	53.8	47.2	44.6	45.6
Botswana	7.5	19.8	9.4	91.5	32.1	34.2
Mozambique	60.4	0.9	54.7	48.1	41.0	40.9
Gabon	6.6	20.8	11.3	66.0	26.2	35.0
Cameroon	57.5	17.0	56.6	57.5	47.2	38.9
Namibia	8.5	16.0	5.7	84.9	28.8	27.9
Zambia	51.9	8.5	44.3	52.8	39.4	31.0
Zimbabwe	48.1	1.9	34.0	81.1	41.3	33.3
Global Average	50.0	50.0	50.0	50.0	50.0	50.0
Regional Average	57.3	13.8	51.3	62.4	46.2	45.4

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA FOOD & NON-ALCOHOLIC DRINKS INDUSTRY RISKS					
	Regulatory Environment	F&D Formalisation	Logistics Risk	Industry Risks	Risks
South Africa	51.9	42.5	47.5	47.5	44.3
Kenya	17.0	3.8	20.8	20.8	22.5
Ghana	58.5	32.1	34.6	34.6	38.9
Nigeria	10.4	21.7	13.5	13.5	15.1
Angola	4.7	41.5	17.0	17.0	17.9
Cote D'Ivoire	17.9	19.8	21.7	21.7	22.5
Ethiopia	5.7	0.9	6.9	6.9	8.6
Tanzania	11.3	9.4	10.4	10.4	17.1
Uganda	22.6	2.8	12.3	12.3	16.0
Botswana	12.3	49.1	30.8	30.8	40.1
Mozambique	46.2	12.3	24.5	24.5	17.0
Gabon	8.5	89.6	33.3	33.3	26.9
Cameroon	3.8	33.0	12.3	12.3	14.0
Namibia	25.5	22.6	28.9	28.9	29.2
Zambia	28.3	16.0	17.9	17.9	16.0
Zimbabwe	1.9	6.6	3.8	3.8	4.4
Global Average	50.0	50.0	50.0	50.0	50.0
Regional Average	20.4	25.2	21.0	21.0	21.9

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA FOOD & NON-ALCOHOLIC DRINKS COUNTRY RISKS

	Long Term Economic Risk Index	Short Term Economic Risk Index	Long Term Political Risk Index	Short Term Political Risk Index	Operational Risk Index	Country Risks	Risks
South Africa	46.2	34.9	36.8	43.4	42.5	41.0	44.3
Kenya	26.4	28.8	30.2	16.5	21.7	24.2	22.5
Ghana	29.2	37.7	67.0	64.6	30.2	43.2	38.9
Nigeria	38.7	42.5	9.4	9.0	0.0	16.6	15.1
Angola	5.7	23.1	22.6	50.0	5.7	18.8	17.9
Cote D'Ivoire	41.5	45.3	8.5	12.3	16.0	23.3	22.5
Ethiopia	13.2	11.3	2.8	11.3	11.3	10.2	8.6
Tanzania	23.6	17.9	35.8	38.7	13.2	23.7	17.1
Uganda	25.5	26.4	15.6	26.9	12.3	19.8	16.0
Botswana	36.8	55.2	61.3	62.3	40.6	49.4	40.1
Mozambique	3.8	3.8	12.3	17.9	9.4	9.4	17.0
Gabon	21.7	20.3	42.5	25.5	6.6	20.5	26.9
Cameroon	28.3	34.0	4.7	19.8	3.8	15.7	14.0
Namibia	8.5	9.4	46.2	46.7	33.0	29.5	29.2
Zambia	9.4	8.5	13.2	15.1	18.9	14.0	16.0
Zimbabwe	0.9	1.9	6.6	5.2	7.5	5.0	4.4
Global Average	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Regional Average	22.5	25.1	26.0	29.1	17.0	22.8	21.9

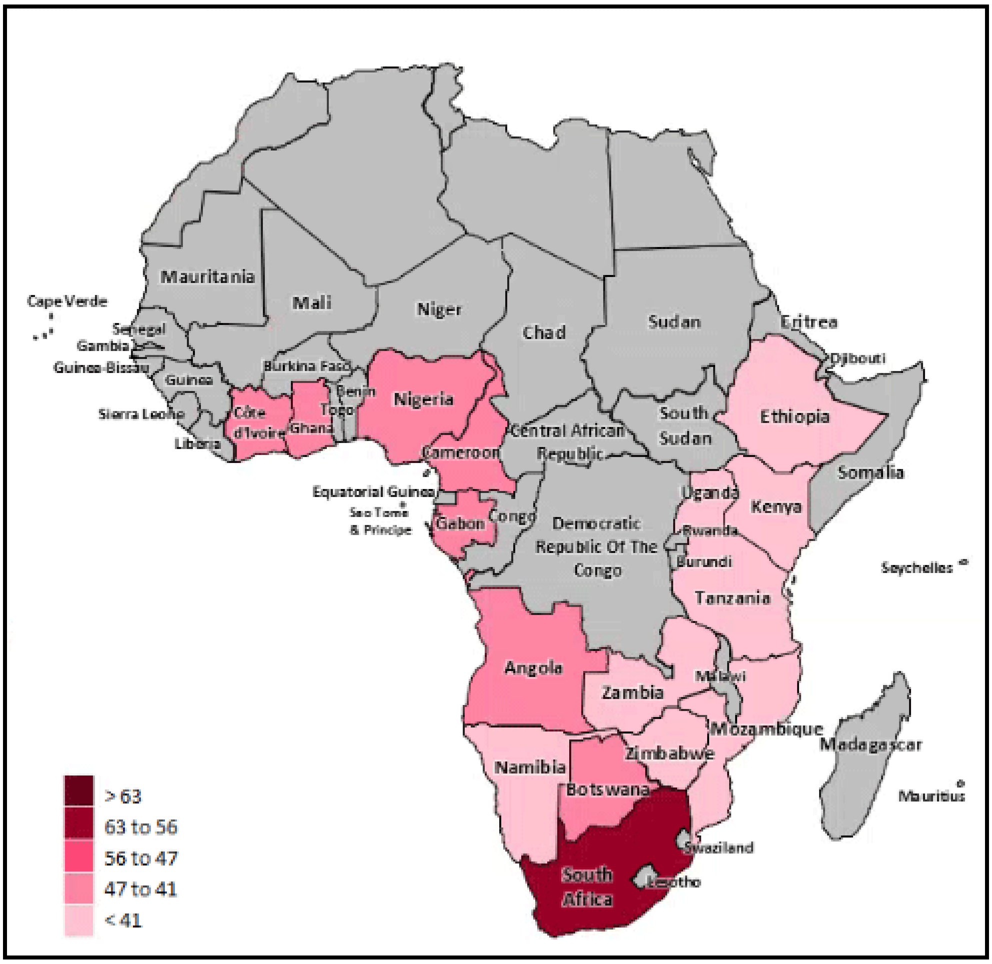
Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA Alcoholic Drinks Risk/Reward Index:High Rewards Plagued By High Risks

__Key View:__ Sub-Saharan Africa (SSA) ranks last in our global five region Alcoholic Risk and Reward Index for Q319 with a score of 41.2 out of 100 which places it behind fourth placed Latin America, which scores 47.3. A similar pattern of high Rewards being plagued by high Risks plays out in a number of markets. South Africa is the obvious outlier, being the only country to score above the global average. In Q319 we shine the spotlight of our analysis on Kenya, which dwells in the middle of the SSA Index, but offers investors a favourable demographic profile for their products and a strong demand outlook for alcohol consumption.

South Africa The Outlier Amongst Low Scores

Sub-Saharan Africa - Alcoholic Drinks Risk/Reward Heat Map



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

Important Note: Our Food & Drink Risk/Reward Index (RRI) includes two Food & Drink Risk/Reward indices: our Food & Non-Alcoholic Drinks RRI and our Alcoholic Drinks RRI. The first quantifies the risks and rewards associated with food and non-alcoholic drink sales in each country, while the other quantifies the risks and rewards associated with the alcoholic drinks sector.

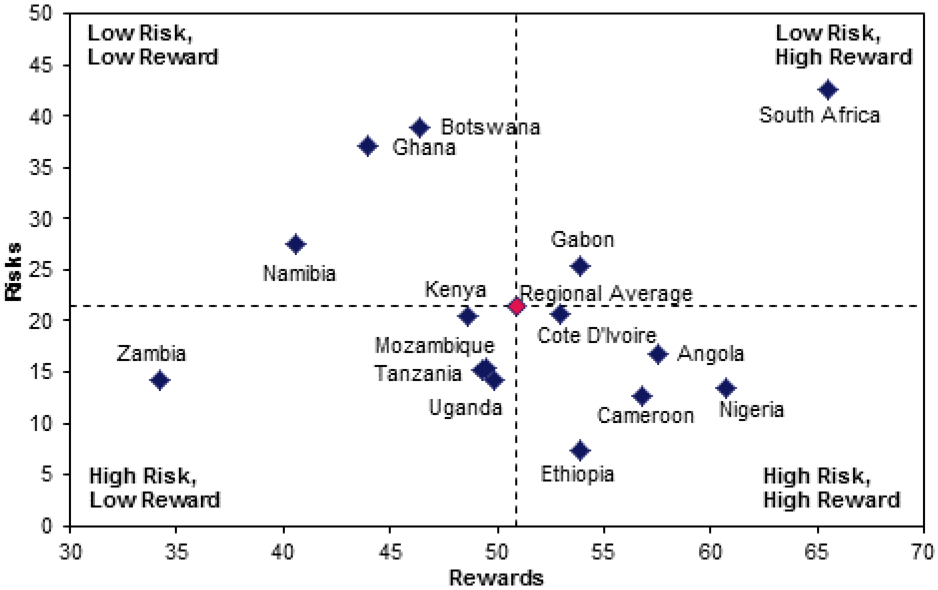
Main Regional Features And Latest Updates

- The Sub-Saharan Africa (SSA) region places last (fifth) in our Alcoholic Drinks Risk/Reward Index (RRI). It scores 41.1 out of 100 in Q319, remaining behind fourth-placed Latin America (47.3) and below the global average of 50.0.

- South Africa is the highest scoring market in the SSA region at 58.6, the only country in the region to score above the global average. The country has a well-established alcohol market, which is currently undergoing a premiumisation trend. As a result of a this strong combination of Risks and Rewards, the country places 28th globally.
- Nigeria places second in this quarters update, with an RRI score of 46.6. Gabon makes up the top three, with an RRI score of 45.3. Nigeria has a stronger Rewards profile, while Gabon scores better in terms of risks.
- Ninth placed Kenya is set to outperform over the next few quarters. A favourable demographics profile combined with strong forecasts for alcoholic drinks spending will continue to propel Kenya up the rankings.
- The SSA region offers some of the fastest growing alcohol markets in the world, with five markets in the 90th percentile for alcohol consumption five-year forecast growth. Although the majority of this growth is coming from a low base, we note that demand is also ticking up in countries where incomes are rising, such as Botswana, Kenya and Côte d'Ivoire, offering alcohol companies the potential to launch more mass market brands.
- SSA also scores well for its percentage of the population that will be 18 years old in the coming years, a general legal drinking age. This will be a key demographic for companies with a presence in the region and those seeking to enter.
- SSA is the most high risk region in our Alcoholic Drinks RRI with a regional risk score of 21.5 out of 100, and underperforms in every one of our country risk categories for economic and political stability. It also scores poorly for operational risks, with difficulties in transporting goods within countries in the region adding to the cost of doing business.

High Risks Plague The Region

Sub-Saharan Africa - Alcoholic Drinks Risk/Reward Index



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

Kenya Poised For Growth Over The Medium Term

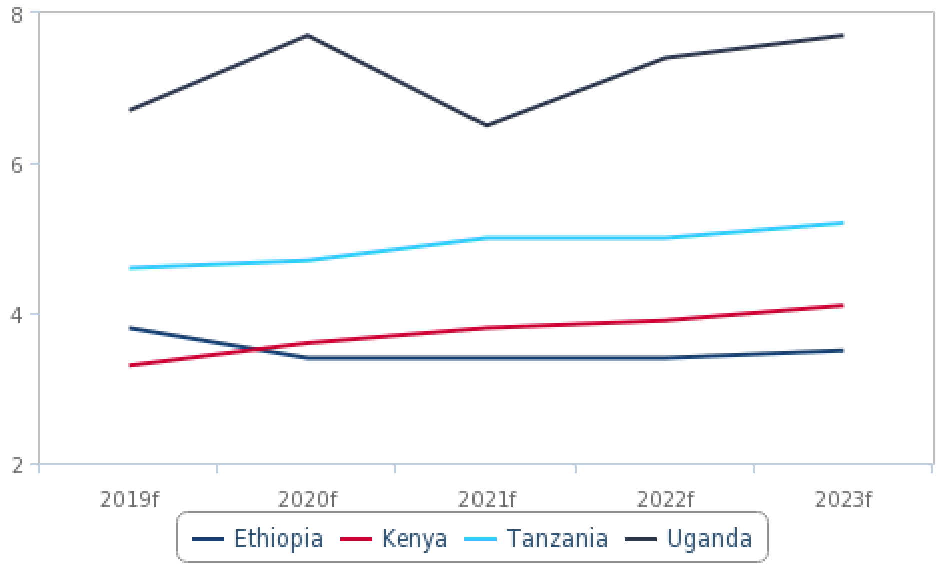
In our Q319 RRI rankings, we highlight Kenya as a potential outperformer over the medium term. In this quarters update, the country gets a total RRI score of 40.2, placing it ninth in the region, above Ethiopia and below Ghana. Following a similar pattern to the rest of the region, Kenya has a solid Rewards profile, but is heavily weighed down by high risks. Over the past quarter, Kenya has risen from the 12th position, regionally, in Q219, to ninth in Q319, also climbing five global positions to 74th. This change comes mainly as a result of improvements within the country's Industry Rewards, as the country is forecast for strong growth in alcohol consumption over the medium term. Over the next five years, we forecast alcoholic drinks spending to increase by an average of 8.7% a year (in US dollar terms).

Kenya also has a favourable demographics profile. Regionally, the country has the seventh largest population, garnering a

Population score of 77.1, significantly above the regional average of 58.5. By 2050, the Kenyan population will more than double. Kenyans are also relatively urbanised, with 27.5% of the population living in an urban setting in 2019. This proportion will increase to 29.6% by 2023. A large urban population is a positive for distribution, higher economic development and for accessing products through a network of retailers. Kenya also boasts a large youth population between the age of 20 and 39. As of 2019, this group represented 31.4% of the population. This age group is important to alcohol investors as it is typically the spending/trendsetting generation and they are generally over the legal drinking age.

East Africa Boasts Strong Performers

Total alcohol consumption, litres mn y-o-y (2019f-2023f)



f = Fitch Solutions forecast. Source: National Sources, Fitch Solutions

Historically, beer has been the most popular alcoholic drink for most Kenyans. Of total per capita litres of alcohol consumed in 2019, 69% of it is beer. Due to the historical dominance of the drink, pricing in the beer sector is differentiated in order to capture an audience from all income levels. Pricing in the low-cost segment will continue to attract Kenya's large consumer base in the informal sector, as quality increasingly becomes a purchasing cue with rising incomes. **East African Breweries**, a subsidiary of **Diageo**, is the dominant brewer in the country and because of this, its beer brands have traditionally had the strongest brand heritage in the alcohol sector, helping to attract and retain consumers in the segment. Kenya remains one of the only country's in the region with such a high forecast beer consumption growth rate, to be dominated by one alcohol major. However, competition for growth has meant other alcohol majors have began to place more emphasis on the market. In 2018, Heineken introduced a new draught beer into the market, while in 2019, AB InBev announced an expansion into Kenya's southern neighbour, Tanzania, with a new production facility.

While Kenya does offer quite a favourable Rewards profile, the country is heavily weighed down by a number of poor scores in its Risk Profile. The country scores particularly poorly in its food and drinks formalisation score, at just 4.2. The retail market in Kenya is still in the earlier stages of development, and the emphasis remains largely on informal retail formats (such as open-air markets and locally-owned kiosks). While the availability of modern retail space is improving, development is still restricted to the few large urban centres, and rapid expansion is unlikely because of logistical challenges. The country also suffers from poor economic and political risk scores, mainly as a result of the fiscal difficulties the government is currently facing, as well as the constant security threat the border with Somalia poses.

South Africa Continues To Outperform The Region

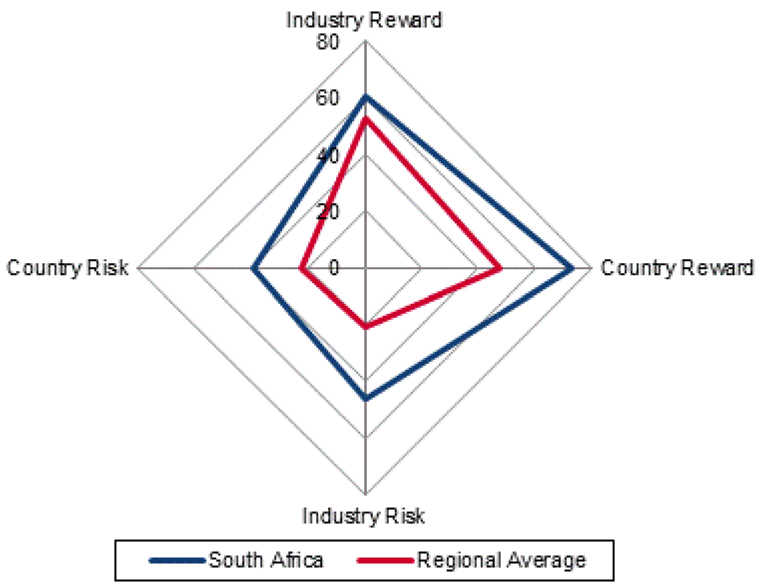
South Africa is ranked at the top of our SSA Alcoholic Drinks RRI for Q319, with a score of 58.6 out of 100. It is significantly ahead of second placed Nigeria which has an overall RRI score 46.6. South Africa also ranks 27th globally and is the only SSA country in the top 50 worldwide. Nigeria ranks 53th globally, scoring below the global average average of 50.0 for its RRI score. The rest of the region places in the 50th-100th range in terms of world rankings. As a result, the region ranks last (fifth), with a regional average RRI score of 41.2. This is significantly lower than that fourth ranked Latin America region, with an average RRI score of 47.3.

South Africa, as the clear top regional performer, scores first or second in each of our Risk and Reward categories for the region. Its strong rewards profile is mainly due to higher disposable incomes, when compared to most other SSA markets. South Africa's mass affluent class (household disposable income of USD10,000 or more) is projected to account for 30.3% of total households in 2019, compared to the SSA regional average of 10.7%. By 2023, this will increase to 37.8% of total households.

A well developed formal retail sector and consumer base that demands high volumes of alcohol products makes South Africa attractive for both local and international alcoholic drinks producers. This presents opportunities for premiumisation, as consumers begin to trade up on price points. We are starting to see alcoholic drink trends in South Africa mirror developed markets around the world, particularly in the beer sector where craft options are becoming increasingly popular. Demand for gin is also rising strongly in line with global trends, with imports of premium gin up by 127% in 2018 according to local trade reports.

South Africa Outperforms On All Indicators

South Africa & SSA RRI Breakdown



Note: Scores out of 100, higher score = more attractive market. Source: Fitch Solutions

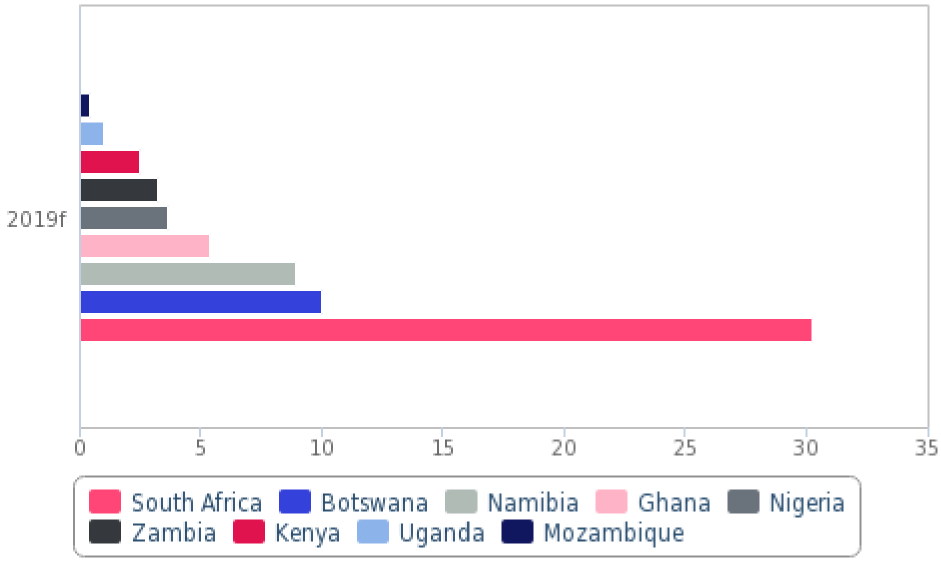
Volume Over Value Story As Incomes Rise, But Remain Low

SSA's five-year alcohol growth outlook for volume is more positive than any other region, outperforming with a score of 75.1 out of 100. Part of the reason for this is the fact that alcohol consumption is growing quickly from a considerably low base. Per capita consumption levels remain low on average, with a few notable outperformers including Namibia, Gabon and Botswana. Outside the low base effects, we are seeing a growing demand from consumers for formal alcoholic drinks, as incomes rise and product availability and affordability improves. There is expanding presence of global brewers in the region, and these brewers are seeking to target large populations and high-growth markets for consumption in terms of the volume of alcohol consumed with their brands and offerings.

While we project strong growth rates for alcohol consumption in the region over our forecast period, the alcohol sector will remain underdeveloped by global standards. One of the key risks facing alcohol producers with a presence in SSA or looking to enter the market is the significant presence of the informal market, where a majority of the population still consumes alcohol. The low cost of these home-brewed alternatives makes it harder for alcoholic drinks majors to penetrate the SSA market, even with the poor and even dangerous quality of these informal products. Global and domestic players have sought to reduce their prices as much as possible in order to encourage consumption, but while incomes have risen, this has been a slow process and a bottle of beer is still considered a luxury in some parts of SSA.

Low Disposable Incomes Force Drinks Majors Into New Strategies

Mass Affluent Class (USD10,000+), % Of Total Households (2019)



f = Fitch Solutions forecast. Source: Fitch Solutions

The scope for growth on the African continent is enormous and as a result, a number of these international alcohol majors are seeking to use Africa's strong volume consumption growth to offset the slowing – and in some cases – decline in alcohol consumption in volume terms in North America and Western Europe. As a result, alcohol drink majors are adapting their strategy to target the low-income mass market, rather than focusing exclusively on the emerging middle class.

AB InBev is ramping up its investments in the region. In August 2018, AB InBev announced plans to start building a 2mn hectolitre (per year) brewery in Mozambique, which is scheduled to be completed by the end of 2019. The company's Africa-zone president Recardo Tadeu reported that Mozambique's beer market saw growth of more than 20% in the first half of 2018 (see *'Mozambique Beer Market Primed For Intensified Competition', August 16 2018*). This is one of numerous projects being undertaken by AB InBev across the region. It announced in March 2018 that it will construct a new USD100mn brewery in Tanzania, with production projected to start in Q220. The company is also spending over USD250mn on the construction of its new brewery located in Nigeria, which will open towards the end of 2019.

Heineken is also expanding heavily in the region, with operations in Nigeria, Ethiopia and most recently in Mozambique, after it commissioned its first brewery in Mozambique. The company invested USD100mn in developing the new plant. Located in the district of Maputo, the new brewery will have a production capacity of 800trn hectolitres (*see 'Heineken Goes Local To Target Weak Consumer', December 22 2017*).

In March 2019, the South African wine producing company, **La RicMal Wines**, unveiled plans of investing in a new bottling plant in Ghana to tap into the growing demand for South African wine in the country.

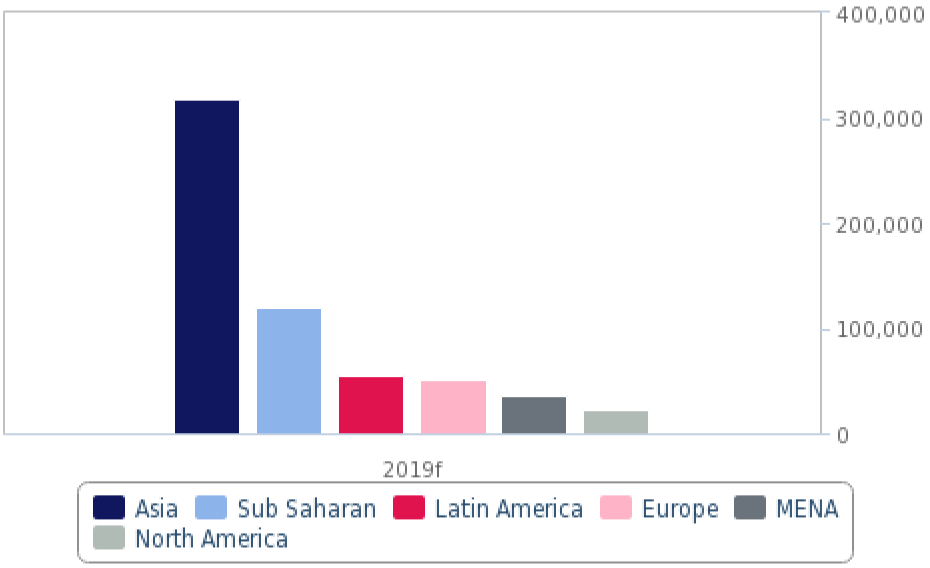
The process towards formalisation of the alcohol sector will be slow and fraught with challenges, even as brewers have adapted their product offerings to use similar ingredients as informal alternatives in order to appeal to a wider customer base. The region scores poorly for mass affluence, the percentage of households that have disposable incomes of more than USD10,000 a year. Even some of the larger, wealthier African markets, such as Nigeria and Kenya, score below the 10th percentile for this category, with less than 3% of the population in these countries placing in this income bracket. Botswana and South Africa are the only markets to score above the 20th percentile for mass affluent class, with the rest of the region still dealing with high levels of poverty that limit the scope for formalised alcohol products.

Demographics Will Play An Important Role Over The Long Term

A key area of opportunity for SSA alcohol producers who are prepared to navigate the risks is the relatively young age of the population. Millions of consumers will be 18 years old – generally the legal drinking age – over the next five years (2019-2023), but more so over the next 35 years. SSA scores well in our spending population indicator, which measures the proportion of the population between the ages of 20 and 39 years (a key age group from a consumer spending point of view). The region ranks in third place, behind Latin America and Middle East and Northern Africa (MENA). However, in total population size, it outstrips both those regions, with a larger number of people turning 18 between 2019 and 2023. For example, SSA will have approximately 647mn people over the age of 18 by 2023 according to our forecasts, compared with 492mn in Latin America and 321mn in MENA. The importance of these demographics is more prominent over the long term. By 2050, Africa's population above the age of 18 will more than double to 1.4trn people. This will offer alcohol majors sustainable growth markets for the medium to long term.

Large Youth Population Presents Considerable Opportunities

Population, 15-19 yrs, total, '000 (2019)



f = Fitch Solutions forecast. Source: Fitch Solutions

Looking at the indicator scores, the SSA region scores above the global average on numerous demographics related indicators. These include the Population (a score of 58.5), the Urban Population (52.9) as well as the Spending Population (66.2) indicator. Transferring this potential into reality will be difficult for alcoholic drinks manufacturers in the short term, as high youth unemployment across most of the region will be a huge challenge. In our view, tailoring price points, marketing, flavours and tastes towards the emerging young adult population will therefore be a key business strategy for alcohol companies. Heineken has already began doing this. Their investment in Mozambique goes hand-in-hand with the company's aim to source 60% of its raw materials in Africa by 2020. By sourcing its raw materials from the country it has operations in, Heineken can produce and sell its products for a lower price, thereby offering products for low-income consumers.

SSA ALCOHOLIC DRINKS RISK/REWARD INDEX

	Industry Rewards	Country Rewards	Rewards	Industry Rewards	Country Risks	Risks	RRI	Regional Rank	Global Rank
South Africa	60.4	73.2	65.5	45.8	39.2	42.5	58.6	1	27
Nigeria	60.1	61.7	60.7	11.8	15.2	13.5	46.6	2	53
Gabon	71.5	27.3	53.9	32.3	18.3	25.3	45.3	3	57
Angola	64.6	46.9	57.5	16.3	17.2	16.8	45.3	4	58
Botswana	55.2	33.1	46.4	29.9	48	38.9	44.1	5	61
Cameroon	62.2	48.7	56.8	11.5	13.7	12.6	43.5	6	64
Cote D'Ivoire	56.6	47.4	52.9	19.8	21.5	20.7	43.2	7	65
Ghana	39.6	50.5	44	33	41.1	37.1	41.9	8	69
Kenya	45.1	53.9	48.6	19.1	21.7	20.4	40.2	9	74
Ethiopia	48.6	61.7	53.9	6.3	8.7	7.5	39.9	10	76
Mozambique	54.2	42.4	49.5	22.6	8.3	15.5	39.3	11	77
Uganda	52.4	46.1	49.9	11.1	17.4	14.3	39.2	12	78
Tanzania	46.9	52.9	49.3	9	21.4	15.2	39	13	79
Namibia	47.6	30.2	40.6	27.1	28	27.6	36.7	14	84
Zambia	29.5	41.1	34.2	16	12.5	14.2	28.2	15	94
Global Average	50	50	50	50	50	50	50	~	~
Regional Average	53	47.8	50.9	20.8	22.2	21.5	42.1	~	~

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA ALCOHOLIC DRINKS INDUSTRY REWARDS

	Alcohol Consumption Per Capita	Alcohol Five-Year Growth Rate	Total Alcohol Consumption	Industry Rewards	Rewards
South Africa	59.4	37.5	84.4	60.4	65.5
Nigeria	13.5	90.6	76	60.1	60.7
Gabon	100	86.5	28.1	71.5	53.9
Angola	51	72.9	69.8	64.6	57.5
Botswana	61.5	92.7	11.5	55.2	46.4
Cameroon	42.7	81.3	62.5	62.2	56.8
Cote D'Ivoire	25	100	44.8	56.6	52.9
Ghana	7.3	84.4	27.1	39.6	44
Kenya	17.7	62.5	55.2	45.1	48.6
Ethiopia	16.7	58.3	70.8	48.6	53.9
Mozambique	21.9	96.9	43.8	54.2	49.5
Uganda	19.8	91.7	45.8	52.4	49.9
Tanzania	12.5	79.2	49	46.9	49.3
Namibia	76	53.1	13.5	47.6	40.6
Zambia	18.8	50	19.8	29.5	34.2
Global Average	50	50	50	50	50
Regional Average	36.3	75.8	46.8	53	50.9

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA ALCOHOLIC DRINKS COUNTRY REWARDS

	Population	Mass Affluent Class	Urban Population	Spending Population	Country Rewards	Rewards
South Africa	80.2	39.6	80.2	92.7	73.2	65.5
Nigeria	94.8	7.3	93.8	51	61.7	60.7
Gabon	6.3	20.8	11.5	70.8	27.3	53.9
Angola	65.6	10.4	66.7	44.8	46.9	57.5
Botswana	7.3	19.8	9.4	95.8	33.1	46.4
Cameroon	58.3	16.7	57.3	62.5	48.7	56.8
Cote D'Ivoire	59.4	17.7	56.3	56.3	47.4	52.9
Ghana	60.4	13.5	62.5	65.6	50.5	44
Kenya	77.1	6.3	58.3	74	53.9	48.6
Ethiopia	90.6	11.5	69.8	75	61.7	53.9
Mozambique	61.5	0	55.2	53.1	42.4	49.5
Uganda	74	4.2	54.2	52.1	46.1	49.9
Tanzania	81.3	12.5	67.7	50	52.9	49.3
Namibia	8.3	15.6	6.3	90.6	30.2	40.6
Zambia	53.1	8.3	44.8	58.3	41.1	34.2
Global Average	50	50	50	50	50	50
Regional Average	58.5	13.6	52.9	66.2	47.8	50.9

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA ALCOHOLIC DRINKS INDUSTRY RISKS					
	Regulatory Environment	F&D Formalisation	Logistics Risks	Industry Risks	Country Risk
South Africa	47.9	42.7	46.9	45.8	39.2
Nigeria	7.3	20.8	7.3	11.8	15.2
Gabon	5.2	90.6	1	32.3	18.3
Angola	3.1	41.7	4.2	16.3	17.2
Botswana	9.4	50	30.2	29.9	48
Cameroon	2.1	32.3	0	11.5	13.7
Cote D'Ivoire	14.6	18.8	26	19.8	21.5
Ghana	55.2	31.3	12.5	33	41.1
Kenya	13.5	4.2	39.6	19.1	21.7
Ethiopia	4.2	1	13.5	6.3	8.7
Mozambique	41.7	11.5	14.6	22.6	8.3
Uganda	19.8	3.1	10.4	11.1	17.4
Tanzania	8.3	9.4	9.4	9	21.4
Namibia	22.9	21.9	36.5	27.1	28
Zambia	25	14.6	8.3	16	12.5
Global Average	50	50	50	50	50
Regional Average	18.7	26.3	17.4	20.8	22.2

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

SSA ALCOHOLIC DRINKS COUNTRY RISKS	Long-Term Economic Risk Index	Short-Term Economic Risk Index	Long-Term Political Risk Index	Short-Term Political Risk Index	Operational Risk Index	Country Risk
South Africa	43.8	32.3	33.3	42.7	41.7	39.2
Nigeria	35.4	39.6	8.3	7.8	0	15.2
Gabon	18.8	17.2	39.6	24	5.2	18.3
Angola	4.2	19.8	20.8	50	4.2	17.2
Botswana	33.3	53.6	58.3	63.5	39.6	48
Cameroon	25	31.3	3.1	18.8	2.1	13.7
Cote D'Ivoire	38.5	42.7	7.3	11.5	14.6	21.5
Ghana	26	35.4	63.5	65.6	28.1	41.1
Kenya	22.9	25.5	27.1	15.1	19.8	21.7
Ethiopia	12.5	9.4	1	10.4	9.4	8.7
Mozambique	3.1	2.1	11.5	16.7	8.3	8.3
Uganda	21.9	22.9	14.1	25	10.4	17.4
Tanzania	20.8	14.6	32.3	37.5	11.5	21.4
Namibia	7.3	8.3	43.8	46.4	31.3	28
Zambia	8.3	7.3	12.5	13.5	16.7	12.5
Global Average	50	50	50	50	50	50
Regional Average	21.5	24.1	25.1	29.9	16.2	22.2

Note: Scores out of 100; higher score = more attractive market. Source: Fitch Solutions

Market Overview

Food

Recent Developments

- In April 2019, the **Stallion Group**, a Dubai-based conglomerate through its Nigerian-subsidiaries **Popular Farms** and **Mills Limited**, inaugurated a new rice milling in Kano State, as it seeks to boost rice production in the country. The firm has invested about NGN8.0bn (USD22.2mn) in the facility and establishing a sesame processing plant.
- **Bourbon House Café**, a Ghana-based fast-food chain group, has opened its first coffee and eatery outlet in Nigeria, in April 2019. This is the company's attempt to expand further into West Africa.
- **Dangote Sugar Refinery** has reported a profit before tax of USD96.2mnb during its full-year results for the financial year ended December 31 2018.
- **Nestlé Nigeria** posted USD165.2mn profit before tax during its financial year ended December 31 2018. This is up from USD129.5mn in its previous year, representing a 27.5% growth rate.
- The **Dangote Tomato** Factory has resumed production of tomato paste after years of shutdown following a challenging operating environment. In February 2019, The federal government of Nigeria unveiled plans of imposing a total ban on the importation of tomato paste in a bid to boost local tomato production in the country.
- In February 2019, the **Eat 'N' Go** restaurant group, the master franchisee for **Domino's Pizza Nigeria** and **Cold Stone Creamy**, opened two more outlets in Abuja. This takes its number of outlets to 84 across the country. The company plans to further expand its physical outlets by up to 50% a year over the next five years
- In January 2019, private equity firm **Vectis Capital** acquired a majority stake for USD12mn in **Leventis Foods**, Nigeria's largest manufacturer of breads and snacks.
- Dutch dairy cooperative **Royal FrieslandCampina** will invest EUR23mn in an evaporated milk and ready-to-drink milk factory according to a September 2018 announcement.

Market Drivers And Trends

Food Production

A number of multinational major players are present in the Nigerian food industry, including **Cadbury**, Nestlé and **Unilever**. However, as the high level of food imports reach an unsustainable level, it is likely that the government will step in to introduce greater measures aimed at boosting domestic production.

The country's food industry has not attracted the same level of foreign investment as the alcoholic and soft drinks industries have benefited from. On January 12 2016, **Olam International** purchased two wheat mills and a pasta-making plant from **BUA Group** for USD275mn. The acquisition of these facilities will double Olam's milling capacity from 3,880 metric tonnes a day to 7,640 metric tonnes. Olam previously acquired **Crown Flour Mills** in 2010. According to Olam, the acquisition will strengthen Olam's position as the number two wheat miller by sales volume. Olam has also been investing in expanding its plants in a bid to increase output. According to Olam, once renovations are complete at one of its pasta-making plants, daily output will double for both pasta products and flour.

Despite showing considerable promise over the past several years, there are still very few large Nigerian food-processing companies, with domestic player **UAC Foods**, which manufactures a range of sweet and savoury snacks, being one of the few exceptions. Such a situation exists in Nigeria's tomato market, where, despite being one of the world's largest producers, the country is heavily reliant on imports for processed tomato goods, such as tomato paste. Despite attempts by local conglomerates such as Dangote and **Transcorp** to develop processed food industries, the country imports almost all of its packaged and prepared food, and the cost of this is growing as the country's population increases.

Capacity utilisation within the food-processing sector still averages around just 35%, which reflects the infrastructural inadequacies companies are forced to contend with - the lack of consistent electricity being the main one. The Nigerian government has aimed to support domestic food producers through import bans on various products, high import duties and a dual inspection policy. Yet, doubts remain whether the government's protectionist measures will have the desired effect of boosting the domestic food-processing industry. Aside from external impediments, such as the lack of reliable power, a number of food and beverage processing companies are held back by structural deficiencies that are unlikely to be resolved by simply blocking imports. Nigeria remains one of the highest-cost markets in Africa, which makes it difficult for producers to price their products competitively enough to appeal to the majority of the extremely price-sensitive consumer base. High-cost bases are also affecting Nigeria's ability to serve as a competitive export base to the wider West African region.

Agriculture

The agricultural industry is still an important contributor to the economy in Nigeria, accounting for around 70% of employment in the country. Following the oil boom of the early 1970s, the agricultural sector was neglected as food and cash crop production dropped. Soaring oil revenues allowed the government to import massive amounts of agricultural products. The government is now looking to diversify the economy away from its overwhelming reliance on the oil industry, as much of the country's economic growth since the oil boom has been very unevenly distributed, and to enhance domestic agricultural output.

Nigeria is the world's fourth-largest cocoa grower after Côte d'Ivoire, Ghana and Indonesia. In recent times, the government has begun to concentrate on cocoa production and has tried to add impetus to the industry by banning imports of cocoa products. An ambitious production project was also implemented with the aim of tripling production. Cocoa was Nigeria's main export product in the 1960s, but with the discovery of oil, the government began to neglect the sector, allowing production to fall. Cocoa will continue to be a very important cash crop for Nigeria, especially as prices have recovered somewhat after dampening slightly from the record highs witnessed in 2008 as commodity prices spiked across the board. We note, however, that mid-crop output reported in August 2016 was down by as much as 70% due to adverse weather.

Cassava is the most farmed food product in Nigeria and the country is the world's largest producer of the root. Around 40mn farmers are involved in the cultivation of an estimated 40mn tonnes annually. Nigeria's comparative advantage in the production of cassava may yet enable the root to develop into a strong export item. At the moment, its export potential is hindered by the fact that productivity is low and farmers get small returns on their investments: this serves to dampen their incentive to invest in significantly raising output.

There are some positive signs regarding the government's renewed commitment to the agricultural sector as it looks to diversify the local agricultural base as a means of providing food security for a soaring population - and as a way of increasing employment opportunities for the majority of Nigerians who depend on agriculture for subsistence. The government has set an ambitious target of being self-sufficient in the production of rice, millet, sorghum, maize and soybeans by 2019. A number of measures are being enacted to increase domestic production by the Ministry of Agriculture and Rural Development, which has partnered with the Central Bank of Nigeria to launch the Anchor Borrowers Scheme. Under the scheme, 13 states have reportedly been able to increase production of staple crops, with Kebbi expected to produce 1mn tonnes of rice in 2016. The country has also been addressing the issue of poor food storage, with the Ministry of Agriculture and Rural Development reporting in September 2016 that over USD8bn of savings could be made through improved facilities.

Food Consumption

The Nigerian food and drink industry will experience solid growth over the long term despite the economy's current volatility. Nigeria's large population provides a substantial domestic market that is lucrative for investors. We will see a rise in food consumption as consumers adopt formal retail, moving away from wet markets.

Food consumption will continue to grow at a steady rate and this growth will be supported by the adoption of formal retail. In Nigeria, we believe that through tailoring products to suit local tastes and pricing competitively, companies will be able to encourage this shift. A prime example of this strategy was when **Nestlé Nigeria** introduced Maggi two-minute noodles, made with soybeans, to rural Nigerians. This, in turn, led to the adoption of Maggi noodles as part of their diet.

We note that food inflation has been trending above the core inflation. The effects of rising consumer inflation are acutely felt through consumer goods. This negatively affects the growth prospects of the food and drink industry in the short term. Consumer inflation is comprised of temporary price volatility, which will be offset by falling domestic fuel prices and lower rates of GDP growth. Core inflation is indicative of the long-term trend in the price level.

Nigeria's relatively higher income equality will support long-term growth as it will lead to an increase in life expectancy, supporting population growth. Middle-income groups generally have more women participating in the labour force, creating demand for convenience packaged foods. Nigerians are highly price sensitive, and product quality plays a substantial role in food purchasing decisions. Investors should focus on low-cost quality products combined with pricing strategies that will ensure that product prices are competitive yet stable.

Food Services

As with most other retail sectors in Nigeria, the food services sector is characterised by the dominance of informal retail spaces - such as locally owned cafes and food stalls. There are very few large chains in any of the food services lines and entry by international companies has been slow. Some fast food chains are present, such as **KFC**, which has 27 restaurants in the country. High costs mean KFC is seen as almost a luxury in Nigeria. The company has been attempting to gain market share by introducing more tailored local produce, such as jollof rice. While sales declined in 2015, KFC still plans to open 50 new branches annually, indicating a high degree of confidence in the market. KFC has to pay a premium to operate in the market which explains why it is one of the only franchises present (**McDonalds** is not yet present, though a **Burger King** is expected to open over our forecast period). The leading domestic chain is **Mr Biggs** (owned by UAC Foods) which has more than 170 restaurants, in Nigeria and throughout West Africa.

The restaurant group Eat 'N' Go is the master franchisee for Domino's Pizza Nigeria and Cold Stone Creamy in the country. Since establishing in 2012, the group have opened 84 outlets across the country, with the restaurant chain mainly consisting of three international brands, Domino's Pizza, Cold Stone Creamery and **Pinkberry**. Currently, Eat 'N' Go has over 2,000 employees and plans to further expand its physical outlets up to 50% a year over the next five years with a growth in workforce by up to 5,000 people. In February 2019, the group opened a further two more stores in the country's capital, Abuja.

The drinks sector is still largely informal and Nigeria has not yet developed a coffee culture similar to that seen in developed states. **Starbucks** could reportedly be considering entry into Nigeria, though this will be unlikely to take place before it cements its foothold in South Africa where it opened its first stores in 2016. They would face very little formal competition in Nigeria. One of the only coffee chains (which is still operating on a very small scale) is **Cafe Neo**, which was launched in 2012 and now has 10 stores. The chain hopes to expand to 20 or 30 premises by 2020 - aiming to establish a hold in the market and some brand loyalty before the potential entry of global giants like Starbucks.

Drink

Recent Developments

- In April 2019, **Golden Guinea Breweries Plc**, a beverage manufacturing company in Nigeria, reopened its plant following a NGN3.6bn (USD9.98mn) cash injection to rejuvenate the brewery.
- In April 2019, The Federal Government of Nigeria unveiled plans of reviewing the excise duty rates imposed on wines and spirits. This follow a push from beverage manufacturers to reduce the rates amid a challenging environment.
- **Champion Breweries Plc**, a producer of alcoholic and non-alcoholic beverages in Nigeria, reported a decline in its earnings to USD13.27mn for the 2018 financial year, down 0.3% y-o-y from USD13.31mn posted in the the 2017 year.
- In March 2019, **Guinness Nigeria**, a subsidiary of **Diageo**, launched a new premium lager beer, the Guinness Gold, onto the local beer market. The product adds to Guinness Nigeria's portfolio which includes different styles of beer such as the famous Guinness Foreign Extra Stout, Guinness Africa Special and Harp Lager beer among others.
- In March 2019, the South Africa-based liquor group **Distell Group Limited** announced expansion plans that included, among others, Nigeria. This investment will include its wine, spirits and ready-to-drink categories.
- **GX Foods Limited**, a local food and beverage company, launched a new fruit juice drink, Frudi fruit drink, in March 2019.
- In Febraury 2019, **Coca**-**Cola Nigeria Limited** unveiled a new Limca Cola. The Limca Cola adds to the Limca Brand product portfolio which includes Lemon-Lime, Bitter Lemon and Soda Water variants.
- **Nigerian Breweries Plc** announced a profit after tax of USD27.54mn during its 2018 financial year, a 26.5% decline from the USD37.46mn posted in its 2017 financial year.
- In January 2019, the **Coca-Cola Company** completed its full ownership acquisition of **Chi Limited** - Nigeria's leading juice producer. Coca-Cola first acquired a minority investment in Chi Limited in 2016, holding a 40% stake in the company from **Tropical General Investments Group**, the holding company for Chi Limited.

Market Drivers And Trends

Beer

Nigeria has the second-largest beer market in Africa, with significant room for expansion over the coming years. Beer is the most popular alcoholic drink in the country by some way, accounting for around 95% of all sales. The government has imposed a ban on the import of beer in bottles or cans for trade, in order to support the domestic industry. Companies engaged in brewing hops are eligible for 'pioneer' status, entitling them to a tax holiday of up to seven years. The alcoholic beverage segment is dominated by eight breweries with an cumulative production capacity of over 17.7mn hectolitres a year.

The industry has a strong multinational presence and is one of the few African beer markets to have attracted more than two major multinational brewers. The market leader is Nigerian Breweries, majority-owned by Dutch brewer **Heineken**, which commands around 65% of the market. Over the last five years, Heineken has invested USD545mn in its Nigerian operations, which underlines the fact that it is one of the brewing giant's most important markets outside Western Europe. Nigerian Breweries accounts for more than half of Heineken's beer-producing capacity for the entire Middle East and Africa region, with a brewing capacity of about 10mn hectolitres and annual sales revenue above USD1.5bn.

In late 2014, Heineken received shareholder approval to merge its Nigeria-based subsidiaries. Nigerian Breweries and **Consolidated Breweries**, both majority-owned by Heineken, were subsequently merged in early 2015, and Nigerian Breweries remains the legal entity listed on the Nigerian Stock Exchange. The merger will strengthen Nigerian Breweries's presence in more affordable beer, as Consolidated Breweries specialises in less expensive brands. We view this as a positive strategic development as the premium segment starts to slow down.

The number-two brewer is **Guinness Nigeria** (Diageo) and has a significant equity position in the brewer. Nigeria has overtaken

Ireland to become Guinness's second-biggest foreign market outside the UK - and unsurprisingly, the country is becoming increasingly important to Diageo. In March 2019, Guinness Nigeria, a subsidiary of Diageo, launched a new premium lager beer, the Guinness Gold, onto the local beer market. The product adds to Guinness Nigeria's portfolio which includes different styles of beer such as the famous Guinness Foreign Extra Stout, Guinness Africa Special and Harp Lager beer among others.

In 2019, Golden Guinea Breweries Plc, a beverage manufacturing company in Nigeria, re-opened its plant following a NGN3.6bn (USD9.98mn) cash injection to rejuvenate the brewery. The brewery, which has been dormant for 17 years, reopened after receiving the loan facility from the Federal Government through the Nigerian Export-Import Bank and the Bank of Industry in 2018. The investment has enabled the firm to double its processing capacity through installation of new equipment to a current operating capacity of 48,000 bottles per hour equivalent to 1.15mn bottles per day. The company brews a wide variety of beers and holds the rights to produce Eagle Stout, while Bergedoff Lager holds the franchise rights from German-based **Holsten Breweries** to produce and market Golden Guinea Lager, Bergedorf Premium Lager and Bergedorf Malta in Nigeria.

In May 2009, **SABMiller** entered the market by acquiring the domestic brewer Pabod (30,000-hectolitre capacity). SABMiller's long absence from Nigeria owed much to the strength of the two leading beer players. In addition to pursuing further acquisitions across Nigeria, SABMiller could, over the long term, gain the upper hand over both Nigerian Breweries and Guinness Nigeria in the high-potential, underdeveloped, low-cost beer segment.

SABMiller estimates the home brew sector in the African markets within which it operates to be worth about USD3bn. SABMiller could tap into a lucrative segment that its Nigerian rivals have so far largely ignored by producing beer using locally sourced inputs, potentially leading to a 50-60% decrease in the price of lagers. However, Guinness launched the Dubic brand during 2013, which is intended to explore the opportunity within a cheaper segment where consumers are buying their beer for around NGN150.

The sheer size of the market - with Nigeria's population nearing 180mn - has meant that Heineken and Guinness have been able to generate significant volume and earnings growth without having to significantly invest in low-cost beer. Although beer consumption is widespread across Nigeria, estimated annual per-capita consumption of 10 litres does not distinguish the country from much of West Africa.

AB InBev is investing USD250mn in its fourth brewery in Nigeria, while merging its three subsidiaries into one (International Breweries, Pabod Breweries and Intafact Breweries). The company is also bringing its Budweiser brand to the market in April 2018.

Spirits

Distillers and drinks companies in Nigeria have looked to expand their spirits product ranges over the past year, and this will help to encourage further consumption, with more availability. Perhaps most important, was Diageo integrating its Integrated Premium Spirits brands with its local subsidiary Guinness Nigeria, in which it holds a 54% stake. It further acquired rights to distribute McDowell, a **United Spirits Limited** brand, in January 2016. This gives Guinness Nigeria a broader line-up of spirits to offer in the country at a lower cost, with whiskey (Johnnie Walker and McDowell) and vodka (Smirnoff) expected to be among the outperformers.

In March 2019, the South Africa-based liquor group Distell Group Limited announced expansion plans that included, among others, Nigeria. This investment will include its wine, spirits and ready-to-drink categories.

Soft Drinks

The Nigerian beverage industry is dominated by multinational companies. This also applies to tea and coffee (where **Nestlé**, **Unilever** and **Cadbury** hold strong market positions), as well as to soft drinks. Greece-based bottling giant **Coca-Cola Hellenic** and its Nigerian unit **Nigerian Bottling Company** (NBC) is the domestic bottler of Coca-Cola products, controlling an estimated 75% of the core carbonates market. Meanwhile, **PepsiCo** franchise-bottler **SBC** produces Pepsi products in Nigeria.

Although NBC comfortably dominates, competition in Nigeria is much stiffer than in most African markets where Coca-Cola usually has a monopolistic position. Per-capita annual soft drinks consumption in Nigeria remains low enough to ensure significant room for major volume and value growth over the coming years. Distribution and marketing investment will continue to play a pivotal role in this process.

In March 2017, a high court judge in Lagos ruled that Coca-Cola's Fanta and Sprite brands could be 'poisonous' due to high levels of benzoic acid and sunset additives in the popular soft drinks that could pose a health risk to consumers when mixed with ascorbic acid, commonly known as vitamin C. Justice Adedayo Oyebanji ordered the NBC to place written warnings on Fanta and Sprite bottles against drinking them with vitamin C, and awarded costs of NGN2mn (USD6,350) against the National Agency For Food and Drug Administration and Control for failing to ensure health standards.

The current socio-economic disparities within Nigeria are such that higher-value fruit juice and functional drinks will price out most consumers; these segments will have to rely on the higher income minority for the time being.

In late 2014, one of Nigeria's leading soft drinks companies was put up for sale. Family-owned **Chi Farms** is expected to attract interest from multinationals such as Nestlé and private equity groups including **KKR** and **Blackstone**. In February 2016, it was reported that Coca-Cola had acquired a 40% share in Chi Farms (Chi Limited) from **Tropical General Investment Group**. In January 2019, the Coca-Cola Company completed its full-ownership acquisition of Nigeria's leading juice producer, Chi Limited. As part of the deal, Coca-Cola will build a production plant in Nigeria to meet local demand, as well as export to the rest of the continent. Chi products are already exported to Togo and Ghana, and has local partners in South Africa. The company is planning to expand its business into Cameroon and Democratic Republic of Congo.

Mass Grocery Retail

Recent Developments

- In November 2018, **SPAR** opened its 14th store in Nigeria, located in Lagos. It is believed this hypermaket is the largest it owns in the country.
- Online grocery store **Mart.ng** launched in Abuja in May 2018, claiming to deliver all ordered items within one hour.
- Major regional and global retailers, including **Carrefour**, **Pick n Pay** and **DIA**, are reportedly considering entering the Nigerian mass grocery retail (MGR) segment.
- Nigerian consumers are price conscious and this remains the key driver behind the purchasing decisions of the majority.

Major Players

SPAR (formerly Park 'n' Shop) is Nigeria's largest retailer and is one of a select few to operate a chain of stores. Its range of valued-added, in-store offerings is popular with consumers, as is its focus on fresh foods. The retailer has given away little about its future plans. In 2010, Park 'n' Shop partnered up with Dutch-retailer SPAR to launch joint stores, and there are now 14 operating under the SPAR brand, with plans to expand further into new locations such as Enugu, Asaba, Kaduna and Ilorin. Park 'n' Shop benefits from SPAR's international reputation and know-how, while SPAR benefits from the Nigerian retailer's knowledge of the local market and existing store network. For example, SPAR Nigeria introduced free Wi-Fi into all its locations in 2017 in a bid to bring in more shoppers, especially the younger generation.

Formal food retail accounts for only around 5% of the food retail market. This means 95% of food sales are still accounted for by independent stores, markets and kiosks in a country with a population of more than 190mn. Entrance into the MGR segment by foreign retailers will drive growth in the sector, particularly by expanding the availability of modern retail spaces. Nigeria's MGR sector is characterised by modern, independently owned supermarket brands that have one or two stores, and the segment is highly fragmented. Online grocery shopping is growing, with a considerable amount of these independent retailers offering online shopping and delivery services.

On April 26 2016, Pick n Pay announced that it will be entering the Nigerian market through a joint venture with local conglomerate **AG Leventis**. Expansion by existing retailers will facilitate further formalisation as consumers are more likely to adopt well-known retail brands. With industry-major Carrefour having announced plans in summer 2013 to enter the Nigerian MGR sector, we can also expect a gradual increase in competition and growing industry dynamism, which will also be important growth drivers. In early 2014, **Walmart**-owned **Massmart** announced plans to open 10 pilot stores in Lagos over the following two years. While Massmart has not yet reached its stated target, the success of a **Valu-Mart** brand store in the country has led to further expansion plans.

Market Drivers And Trends

Nigerian consumers are price conscious and this remains the key driver behind the purchasing decisions of the majority. Accordingly, retail outlets tend to offer only small package sizes that, while suitable only for one use, are within the spending power of the majority. Shopping tends to be done on a more day-to-day basis rather than in bulk - a consequence of small package sizes, price and the lack of produce available in many stores, which forces consumers to shop at a variety of retailers. All retail outlets have conformed to these shopping trends, with grocery retail in Nigeria very much following consumer demand rather than leading it.

Although supermarket sales are increasing, the majority of the population continues to rely on convenience stores, traditional outlets and wet markets for their daily shopping - a trend unlikely to change significantly in the foreseeable future.

Nigeria's online grocery retailing segment will present strong growth opportunities in the MGR and e-commerce sectors over the medium-to-long term. Our view is underpinned by a positive e-commerce outlook for Nigeria, as we forecast industry value to grow rapidly. Nigeria is one of the most promising e-commerce markets in Sub-Saharan Africa (SSA), alongside South Africa and Tanzania - which collectively account for 87% of SSA's e-commerce sales. Furthermore, online grocery retailing services offerings have grown over the previous years as Nigeria's MGR sector became more dynamic. For example, local-retailers Justrite Superstores and Yem-Yem Superstore offer online shopping and home delivery services. Currently, the most noticeable online food retailers are Supermarket.ng, Tonyson and Value4Naira.com. This trend will largely play out in Lagos, Abuja and Port Harcourt.

Online grocery retailing's value proposition lies in its time-saving element - reducing time spent in traffic or looking for different products in different stores. Nigerian women's labour force participation has been growing and we expect this trend to continue playing out over the coming years. Finally, increasing internet connectivity will raise consumer awareness of online grocery retailing, which will lead to mass adoption within high-income consumer segments.

Competitive Landscape

KEY PLAYERS IN NIGERIA'S FOOD & DRINK SECTOR

Company	Country of origin	Ownership	Subsector
Nigerian Breweries	Nigeria	Heineken	Beverages - beer
Guinness Nigeria	Ireland	Guinness	Beverage - beer
Nigerian Bottling Company	Nigeria	The Coca-Cola Company	Beverage - soft drinks
Nestlé Nigeria	Switzerland	Nestlé	Food and beverage
UAC Foods	Nigeria	UAC	Food - confectionery and savoury
Seven-Up Bottling Company	Nigeria	PepsiCo	Beverage - soft drinks
Unilever Nigeria	UK	Unilever	Food and beverage
Cadbury Nigeria	UK	Mondelēz International	Food and beverage
Pabod Brewery	Nigeria	SABMiller	Beverage - beer
Nasco Group Nigeria	Nigeria	NASCO Group	Food
Classic Beverages	Nigeria	Prima Group	Beverage - soft drinks

Source: Company reports, Trade press, Fitch Solutions

KEY PLAYERS IN NIGERIA'S MASS GROCERY RETAIL SECTOR

Company	Country of origin	Ownership	Fascia	Format
Park 'n' Shop	Nigeria	Artee Group	SPAR Park 'n' Shop	Supermarkets
Goodies	Nigeria	na	Goodies	Supermarkets
Esco	Nigeria	na	Esco	Supermarkets
Bestway	Nigeria	na	Bestway	Supermarkets
Chanrai's	Nigeria	na	Chanrai's	na
BG-Mart	Nigeria	na	BG-Mart	Supermarkets
Legend	Nigeria	na	Legend	na
Amigos	Nigeria	na	Amigos	na
Choice	Nigeria	Multipro Enterprise	Choice	na
Shoprite	South Africa	Shoprite Holdings	Shoprite	Supermarkets
Exclusive	Nigeria	na	Exclusive	na
Everyday	Nigeria	na	Everyday	na
Grand	Nigeria	na	Grand	na
Justrite Superstore	Nigeria	Justrite	Justrite	na
Wetin dey	Nigeria	na	Wetin dey	Convenience
CCD Superstores	Nigeria	na	CCD Superstore	na
TriFarms Supermarket	Nigeria	na	TriFarms Supermarket	Supermarket
Prince Ebeano	Nigeria	na	Prince Ebeano Supermarkets	Supermarket
Ajayi	Nigeria	na	Ajayi Supermarkets	Supermarket
Bimta	Nigeria	na	Bimta Supermarkets	Supermarket
Yem-Yem	Nigeria	na	Yem-Yem Supermarkets	Supermarket
BL Supermarket	Nigeria	na	BL Supermarket	Supermarket
Okoli Supermarket	Nigeria	na	Okoli Supermarket	Supermarket
Genesis Supermarket	Nigeria	na	Genesis Supermarket	Supermarket
JF Supermarket	Nigeria	na	JF Supermarket	Supermarket
Gravitas Supermarket	Nigeria	na	Gravitas Supermarket	Supermarket
Mandys Supermarket	Nigeria	na	Mandys Supermarket	Supermarket
Nazareth Supermarket	Nigeria	na	Nazareth Supermarket	Supermarket

Note: na = not available/applicable. Source: Trade press, Fitch Solutions

Company Profile

Nestlé Nigeria

SWOT Analysis	
Strengths	• Nestlé is Nigeria's largest food company by turnover. • Nestlé possesses an internationally renowned brand name. • Having operated in Nigeria for almost 50 years, the company has considerable experience in the country's difficult regulatory environment. • Current economic conditions create a barrier for new entrants. • The company offers quality popular brands. • The company is investing in ongoing plant capacity in the country.
Weaknesses	• Nestlé will have to invest heavily to boost manufacturing, distribution and marketing processes. • High production costs affect Nigeria's ability to serve as a competitive export base to the wider West African region. • Although Nigeria has an enormous population, the vast majority of consumers remain beyond reach due to low incomes and poor infrastructure. • Instability in northern states, such as Borno and Yobe, has resulted in Nestlé having to temporarily remove some of its sales staff. • Warning issued against Maggi instant by food and safety bodies in Nigeria affect Nestlé's ability to capture market share in the lucrative category.
Opportunities	• As Nigeria's largest food company, Nestlé is well placed to capitalise on dynamic forecast headline food consumption growth. • Rising disposable incomes over the long term will very likely serve to increase demand for higher-value Nestlé brands such as Nescafé coffee. • By funding farmers and investing in its supply chain, Nestlé is helping to strengthen local sources for raw ingredients while also broadening its potential consumer base. • Rising consumption of bottled water presents an opportunity for Nestle's PureLife water brand.
Threats	• Competition from rival multinationals such as Cadbury and Unilever is steadily growing. • Unilever's aggressive low-cost brand strategy is poaching highly price-sensitive consumers. • Kellogg's proposed entrance into the West African market poses a threat to Nestlé's market share in the snacks category. • Nigeria's notoriously poor regulatory environment makes expanding difficult. • Volatility in cocoa prices can have a negative impact on Nestlé's profit margins. • Ongoing security concerns in Nigeria's northern regions and the related uncertainty. • Currency volatility could negatively affect the company's operations and financial results.

Company Overview

Nestlé established a trading presence in Nigeria in 1961, and began listing on the Nigerian stock exchange in 1978. The Switzerland-based company then established a factory in Agbara, Ogun State, in 1981. Nestlé SA now holds a 62% stake in the company. The company produces a wide range of baby food, drinks and confectionery items for the Nigerian market, which are produced mainly using locally sourced raw materials such as sorghum and maize. It is also a leader in the local cocoa and coffee markets, importing coffee from Côte d'Ivoire.

Strategy

Nestlé Group's growth plan is based upon the 'Nutrition, Health and Wellness' strategy, which includes research and development in the food and beverage sector and nutritional therapies. The Nestlé Strategic Roadmap incorporates operational pillars such as consumer engagement, operational efficiency and innovation, as well as growth drivers including premiumisation and investment in emerging markets, and, finally, developing competitive advantages such as product diversification, expanded geographic presence and expansive research and development.

In November 2017, Nestlé Introduced a new seasoning cube, the Maggi Naija Pot, developed in the country based on local tastes. The new product has reduced salt and increased micronutrient fortification and is sourcing the ingredients in Nigeria. As it tries to meet its 'Simply Good' healthy nutrition goals, more products like this are likely in the works. This followed the October introduction of its MILO energy ready-to-drink format to meet the nutrition needs of active children in a convenient packaging.

Nestlé has been expanding its production in Nigeria after receiving support from the Ogun State government to expand production at the Agbara plant, located near the main city of Lagos. According to Nestlé press reports, it is expected that this investment will further stimulate sustainable growth, increase the company's market share and broaden the nutrition, health and wellness business platform for the company in Nigeria.

Competition from multinationals in Nestlé's lucrative markets is steadily increasing. Unilever is currently increasing investments in Nigeria in order to capitalise on growth. In an effort to capture price-sensitive consumers, Unilever has created a brand portfolio that caters to various incomes. Furthermore, this strategy protects Unilever's sales from consumers that are switching out to low-cost brands.

Recent Developments

2019

Nestlé Nigeria reported a USD165.22mn profit before tax during its financial year ended 31 December 2018. This is up from the USD129.5mn reported in the previous year, representing growth of 27.5%.

In April, the company announced that it had partnered with the International Fertiliser Development Centre to train 30,000 Nigerian farmers on resilient farming of sorghum and millet, as it seeks to source 100% of its raw materials locally.

2018

The Supply Chain Manager for Nestlé Nigeria stated that the company reached about 80% local sourcing in 2018, and is poised to increase the percentages where possible in the coming years.

Nestlé's half-year revenues ending June 2018 amounted to NGN135.3bn, representing an 11% increase compared to the same period in 2017.

In April, Nestlé launched a new cereal, Golden Morn Puffs, fortified with grainsmart to the West African market. The combination of vitamins and iron in grainsmart have been developed by Nestlé to address the burden of micronutrient deficiency in the region. 50% of its products are already fortified with micronutrients as it tries to meet its commitment to healthier foods. Additionally, 95% of the maize, millet, oats and soya used in the new cereal are locally sourced.

Revenues for FY2017 came in at NGN244.2bn, 34% higher than compared to 2016. Profit after tax and EBITDA also came in considerably higher than the previous year.

2017

In May, Chairman David Ifezulike told shareholders that the company was considering new investments to strengthen its nationwide production and distribution networks. In particular, these investment proposals would include expansion of its operations in the South East and South-South regions of the country.

2015

A joint venture announced in 2015 between Kellogg's and Tolaram Group, will enable Kellogg's to piggyback on Tolaram's extensive distribution channels in Nigeria's instant noodles category. This does not bode well for Nestlé, as their flagship instant noodles brand was hard hit by a food safety warning from Nigeria's National Agency for Food and Drugs Administration and Control. This warning advised against the sale, purchase and consumption of Maggi instant noodles manufactured in India due to safety concerns about excess lead present in the product.

In spring 2015, the chief executive of Nestlé Nigeria, Dharnesh Gordhon, said that he expects the company's capital expenditure to slow to its lowest level in five years after the recent currency devaluation triggered a sharp drop in the price of oil, the country's main export. Gordhon said the Nigerian unit had invested USD400mn over the past six years into its local business to increase capacity. The company will spend USD200mn over the next 18 months to maintain growth, such as investing in packaging which currently has to be imported, but will also shift its focus to managing costs given the challenges facing the economy.

2014

In May 2014, the company announced plans to invest USD28mn in the development of a new high technology water processing and bottling operation to increase production and delivery of its Pure Life brand bottled water.

Financial Data

Revenue

Fiscal Year ending 31 December

- 2018: NGN266.3bn (USD736.3mn)
- 2017: NGN244.2bn (USD678mn)
- 2016: NGN181.9bn (USD505mn)
- 2015: NGN151bn (USD479.7mn)
- 2014: NGN143bn (USD858mn)
- 2013: NGN133.1bn (USD796mn)
- 2012: NGN117bn (USD702mn)

United Africa Company Of Nigeria

SWOT Analysis

Strengths	• UAC Foods possesses a wide sweet and savoury convenience food range that appeals to a broader segment of the market than its multinational rivals. • As an established local company, UAC Foods benefits from a strong reputation and considerable consumer recognition of its products. • United Africa Company of Nigeria's popular Gala sausage roll is its hallmark product and has been a market leader since 1962.
Weaknesses	• UAC Foods will have to invest significantly to sustain its position in an industry that is attracting more attention from well-capitalised multinational firms. • A shortage of domestic beef forces the company to import the meat it uses in its Gala sausage rolls, an input cost difficult to pass on to a largely low-income consumer base. • Struggled with slow and even declining revenue and a drop in profits in FY2018.
Opportunities	• As a major domestic food processor, United Africa Company of Nigeria is well placed to capitalise on expected strong growth in food consumption. • Demand for low-cost confectionery is rising rapidly across Nigeria. • The development of Nigeria's mass grocery retail sector will smooth United Africa Company of Nigeria's route to market and allow it to reach higher income consumers more efficiently. • Rising demand will bring significant opportunities to United Africa Company of Nigeria's bottled water business. • Partnership with Famous Brands will allow the company to develop its restaurant business further.
Threats	• The company's sweet products face stiff competition from well-capitalised multinationals, which are aiming to benefit from rising disposable incomes. • With raw material costs rising, particularly sugar, United Africa Company of Nigeria will struggle to maintain margins as it will be unable to pass on increases to its price-sensitive consumer base. • Ongoing security concerns in Nigeria's northern regions and the related uncertainty, paired with high rates of inflation, is affecting consumer spending.

Company Overview

Founded in 1879, the United Africa Company of Nigeria owns one of Nigeria's largest manufacturers of sweet and savoury convenience foods: UAC Foods. Its products include cakes, crisps and meat rolls/snacks, as well as a range of bottled water and fruit juice products. United Africa Company of Nigeria is also involved in the dairy, bottled water and food services industries.

the United Africa Company of Nigeria operates through a number of subsidiaries. These include Grand Cereals Limited, which manufactures and markets Grand Soya Oil, Vital Poultry/Fish Feeds, Binggo Dog Feed and Grand Maize Meals. UAC Foods Limited (a joint venture with Tiger Brands Limited) produces products including Gala Sausage Roll, Funtime Coconut Chips, Supreme Ice Cream, Delite Fruit Juice, Gossy- and Swan- branded bottled spring waters.

The United Africa Company of Nigeria also has logistics companies (MDS Logistics Limited which is a joint venture with Imperial Logistics) and is present in the food service sector via UAC Restaurants Limited. Livestock Feeds Plc is the group's animal feeds operation.

Strategy

UAC Foods is committed to becoming the leading manufacturer of convenience foods in Nigeria. Its strategy is to capitalise on its brand equity and target the country's growing consumer base. The company has re-branded its market-leading Gala sausage roll snack by making its packaging trendier. Moreover, UAC Foods has launched the snack in Ghana and may decide to target more foreign markets in the future. Domestically, the company can be expected to continue to launch new products tailored to local tastes and preferences, and experiment with locally sourced ingredients.

The company's growth strategy includes building strong regional and international corporate partnerships in order to enhance sustainable growth and business transformation. To this end, the United Africa Company of Nigeria partnered with Tiger Brands of South Africa in early 2013 to form a new company, UAC Foods Limited, with Tiger Brands Limited holding 49% of the equity and the United Africa Company of Nigeria controlling 51%.

Recent Developments

2019

In April, the company appointed Mr Folasope Babasola Aiyesimoju as the new Group Managing Director/Chief Executive Officer.

In April, Grand Cereals Limited, a subsidiary of the United Africa Company of Nigeria, commissioned a NGN1.2bn (USD3.3mn) fish feed processing plant. The plant would begin production of 2,500 tonnes of fish feeds per month.

In February, the fast food chain Mr Bigg's, a subsidiary of the United Africa Company of Nigeria, opened an outlet in the State of Ogun. This brings the total number of outlets in Nigeria to over 150. Mr Bigg's is the flagship brand of the fast food chain business operated under the United Africa Company of Nigeria's division UAC Restaurants Limited.

In February, the Group announced that it will wind up the assets of one of its subsidiary businesses, Warm Spring Waters Nigeria Limited. The company cites a weak operational performance due to problems associated with the rural location of the plant at the source of the spring water, logistical challenges, the 100% reliance on company-generated power and a difficult operating environment as reasons to close the business.

2018

At the annual meeting, Chairman Dan Agbor said the company's 2018 focus will be on capital allocation and portfolio composition, human capital, operating company strategy and reinforcing a group-wide culture of accountability and responsibility.

The United Africa Company of Nigeria increased its revenue by 8% y-o-y in 2017 to NGN89.2bn, however, its profit after tax dropped by 79%, the weakest bottom line in 16 years. This was driven by sharp rises in expense lines which outpaced weak top-line growth, especially the increase in the price of raw materials. In response to this, the management team is conducting a holistic business review to reposition the business on the path of organic growth and profitability. Grand Cereals accounted for 54% of group sales (the highest on record). Sales were up 30% to NGN48.2bn, driven by both pricing and unit volume growth.

In April, the United Africa Company of Nigeria announced plans to raise NGN20.0bn (USD65.4mn) through a bond sale to refinance short-term borrowings at its real estate subsidiary, which has suffered as a result of oversupply in the market and a drop in Nigerians' purchasing power.

2017

The United Africa Company of Nigeria is raising NGN15.36bn through a rights issue of 960.43mn ordinary shares. The new shares have been pre-allotted to existing shareholders on the basis of one new share for every two shares held as of the close of business on Thursday October 19 2017. It closed the rights issue in December 2017. The company will use the largest chunk of the net proceeds (NGN15.03bn) to invest in the Plateau State-based subsidiary Grand Cereals Limited.

During H117, price hikes across its product portfolio as well as higher volume at its animal feed business (Grand Cereals Limited and Livestock) helped improve its revenue performance by 31.6%.

Financial Data

Group Sales

Fiscal Year ending 31 December

- 2018: NGN78.7bn
- 2017: NGN89.2bn (USD247.7mn)
- 2016: NGN84.6bn (USD275.5mn)
- 2015: NGN73.1bn (USD370mn)
- 2014: NGN85.7bn (USD516mn)
- 2013: NGN78.7bn (USD484.9mn)

Guinness Nigeria

SWOT Analysis	
Strengths	• Guinness Nigeria is Nigeria's second-largest brewer behind Nigerian Breweries. • Such is the popularity of Guinness, that many Nigerians consider the brand to be synonymous with their country rather than Ireland. • Nigeria is Guinness's second-biggest market outside the UK. • Guinness has been quicker to embrace the potential of the non-alcoholic beer industry than its competitors. • Continued success in product innovation, especially in lucrative alcoholic sub-categories.
Weaknesses	• Focused on the mid-premium tier of the market, Guinness lacks exposure to the low-cost segment. • Guinness Nigeria will have to continue investing heavily to keep pace with Nigerian Breweries. • Concentrating on a premiumisation strategy in 2014 adversely impacted sales during the year, at a time when domestic consumers were looking for cheaper priced drinks.
Opportunities	• At just 16 litres per capita per annum, Nigeria's beer market has barely scratched the surface of its potential. Diageo sees Africa as an increasingly important growth region, which is likely to benefit Guinness Nigeria, particularly when it comes to capital expenditure. Demand for non-alcoholic beer is rising quickly among Muslim consumers, who make up a large percentage of the local population. • Guinness could decide to launch a wider array of low-cost sorghum beers to compete with the flourishing informal sector. • Rising health consciousness will provide good growth opportunities for Guinness Nigeria's low-calorie and low-alcohol products. • New product launches, such as Malta Guinness Low Sugar and Snapp, which is aimed specifically at women, will help the company gain new consumers. • The launch of new value brands will take the brewer to a new audience.
Threats	• Rising Islamism in the northern region is a threat to the beer industry. • SABMiller has recently entered Nigeria and is focusing on selling low-cost beer to attract greater volumes, which presents a major challenge to Guinness. • The acquisition of SABMiller by AB InBev poses a threat to beer margins. • The size of the informal beer industry affects Guinness's sales. • Increasing costs associated with finance and interest rate rises.

Company Overview

Guinness Nigeria is a subsidiary of Diageo, and is a major player in the Nigerian beer market with its Guinness Extra Smooth, Harp Lager, Gordon's Spark and Satzenbrau lager brands. In addition, the company has the non-alcoholic Malta Guinness brand in its portfolio.

Strategy

Guinness Nigeria is committed to targeting further growth in Nigeria and closing the gap on Nigeria Breweries' market share. Recently, the company has been focusing its investments on capacity expansions and diversifying its brand portfolio as it looks to keep pace with growing competition. The company also continues to launch new products designed specifically for the Nigerian market.

The acquisition of SABMiller by AB InBev (completed in October 2016) poses a serious threat to Guinness Nigeria's beer margins.

SABMiller currently caters to the low-cost beer category, which has potential to gain market share from the informal beer category and from existing commercial beer consumers who are highly price sensitive. In past years, premiumisation in the beer category hurt Guinness Nigeria's sales. SABMiller-AB InBev is likely to target Guinness Nigeria's market share. SABMiller-AB InBev will tailor their brand portfolio to Nigeria's diverse regional tastes and diverse income groups, rapidly gaining market share. SABMiller-AB InBev will also be in a position to transfer cost savings to consumers, providing quality beer at competitive prices. This could result in highly price sensitive consumers switching out of the spirits category into the value beer category. This will be marginal switching out.

Recent Developments

2019

In April, Guinness Nigeria launched the 'Baileys Delight', adding a new product to alcoholic beverage portfolio in the country. This follows after a March announcement that the company launched a new premium lager beer the 'Guinness Gold' into the local beer market.

In March, the company partnered with the WaterAid, an international non-profit organization, to facilitate the implementation of the 'Water of Life' project in Nigeria. The 'Water of Life' project aims at promoting sustainable access to water, sanitation and hygiene, while helping people take action to improve their health and well-being

Guinness has partnered with a number of stakeholders including Central Bank of Nigeria, OCP Africa, AFEX Commodity, OXFAM and Stanbic IBTC Bank in the 'Growing with Nigeria' agricultural initiative, aimed at empowering local farmers to reduce the import of raw materials for the manufacturing sector and conserving foreign exchange. The company has stated that its core ingredients such as sorghum and malt extract, are already sourced locally with its current content sourcing at 75% in Nigeria, with aims to increase this over the coming years.

2018

For its 2018 financial year ending June 30, the company reported profit before tax of NGN9.9bn, up by 249% compared to the previous year of NGN2.6bn. Its revenue increased by 14%, from NGN125.9bn in FY17 to NGN143bn driven by strong growth in both beer and mainstream spirits.

In June 2018, Guinness launched PET Bottles for its non-alcoholic drink brands - Malta Guinness classic, Dubic Malt, and Orijin Zero. The company has invested NGN6.5bn in producing these bottles.

In April, Guinness signed a memorandum of understanding with for profit social enterprise Wecyclers, regarding the former's waste management strategy. This move is in line with Guinness Nigeria's commitment to reduce its environmental impact across its operations and throughout its supply chain.

2017

Guinness Nigeria announced its 2017 year-end financial results on 31 August, showing a 23% y-o-y increase in revenue to NGN125.0bn and gross profit up 16% y-o-y to NGN48.3bn. The company's operating profit was NGN10.2bn, which represented a 131% increase from the previous year. The increase in the company's gross profit was attributed to volume growth, pricing benefit and a favourable sales mix rising from continued investment into its branded portfolio. Part of that investment included NGN4.7bn into a locally manufactured spirits line that filled gaps in the company's spirit brand base, allowing it to compete across all categories in Nigeria's alcoholic drinks market.

In early July 2017, Guinness Nigeria undertook a NGN30bn rights issue to fund its strategy in the adverse economic environment.

2016

In September 2016, Guinness Nigeria reported plans to increase the export of Guinness Stout and Orijin - targeting South Africa as a potential market. In its interim results the group posted its first loss in 30 years, attributing the decline in sales to reduced disposable income in Nigeria which had led to consumers switching to economy brands. Guinness Nigeria has also been heavily impacted by the devaluation of the naira.

January 2016 saw Guinness Nigeria acquire the rights to distribute McDowell's (a United Spirits Limited whiskey brand), having the previous month acquired the rights to distribute International Premium Spirits's brands including Johnnie Walker Scotch whisky and Bailey's liqueur in Nigeria.

Financial Data

Sales

Fiscal year ending 30 June

- 2018: NGN143.0bn
- 2017: NGN125.0bn (USD347mn)
- 2016: NGN102.0bn (USD321mn)
- 2015: NGN 118.5bn (USD595mn)
- 2014: NGN109.2bn (USD779mn)
- 2013: NGN122.5bn (USD772mn)
- 2012: NGN126.3bn (USD781mn)

Nigerian Breweries

SWOT Analysis

Strengths	• Nigerian Breweries leads the market with about 65% of the formal beer market. • The company boasts a wide portfolio that includes a number of famous alcoholic and non-alcoholic Nigerian brands. • Its owner, Heineken, views Nigeria as one of its fastest-growing foreign markets and is committed to further investment. • Intense innovation in the Ready-To-Drink Bitters category.
Weaknesses	• Focused on the mid-premium tier of the market, Nigerian Breweries lacks exposure to the underdeveloped low-cost segment. • Nigerian Breweries has been slow to realise the potential of non-alcoholic beers and has lost ground to its competitors in this subsector. • Home-brewed beers remain very popular in Nigeria, with bottled beers currently out of the price range of many Nigerian consumers. • The dynamism of the industry means that Heineken must continue to invest heavily in order to keep ahead of the competition, particularly as its key rivals also regard Nigeria as one of their most important growth markets. • Recent profits have been hit by expansion costs and rising distribution costs.
Opportunities	• Beer sales are forecast to grow dynamically in Nigeria and, as the market leader, Nigerian Breweries is in pole position to be the main beneficiary. • The growing importance Heineken is placing on Africa as beer sales in the West decline is likely to benefit Nigerian Breweries, particularly when it comes to capital expenditure. • Increased investment into lower-cost brewing facilities and local sourcing that rely on domestic inputs, such as sorghum, could allow the brewer to increase volumes and cut costs. • The launch of Star Lite in early 2014 is aimed at a younger, health conscious consumer in Nigeria.
Threats	• Islamist militant activity in the northern region is a threat to the beer industry. • Nigeria's dire regulatory environment and rural price sensitivity makes targeting rural consumers difficult. • The acquisition of SABMiller by AB InBev poses a threat to beer margins, especially following the launch of a new USD250mn brewery in 2018. • Introduction of AB InBev into the market has put pressure on beer volume sales.

Company Overview

Nigerian Breweries, majority owned by Dutch brewer Heineken, is Nigeria's largest beer company. Its portfolio includes brands such as STAR, Aba, Kaduna, Ibadan, Enugu and AMA Greenfield.

Strategy

Nigerian Breweries has invested huge sums into its Nigerian operations over recent years, increasing production capacity to 10mn hectolitres annually and boosting its market share. In Nigeria, the company has 11 breweries, 26 sales depots and two malting plants. Heineken has shown considerable commitment to the African market, with its investment in Nigeria currently its most significant outside Europe. Capacity increases and improvement of distribution channels will continue to be pursued. The company is now focusing on expanding its non-alcoholic beer offerings by introducing the Fayrouz brand in order to appeal to Nigeria's large Islamic population.

Recent Developments

2019

The Nigerian Stock Exchange reclassified Nigerian Breweries Plc stock from its previous high-priced stock to medium-priced stock following a fall of the brewer's stock price below the required High-Priced Stock threshold.

The Brewer reported a 2018 net income decline of 41% from the previous year, to NGN19.4bn (USD54mn) due to 'increased excise duty rates' as well as 'a challenging operating environment'.

2018

In July 2018, Nigerian Breweries commenced issuance of a NGN8bn Series 15 Commercial Paper (CP) under its NGN100bn CP programme launched in 2015. It is designed to complement the company's other sources of working capital, while diversifying funding sources to include non-bank investors. Additionally, the programme will improve the company's ability to periodically access funding at rates mirroring the money market.

Nigerian Breweries increased profits after tax by 16% in 2017, reaching NGN33bn for the year. During its Annual General Meeting, Jordi Borrut Bel, the company's Managing Director said that that 100% of its packaging materials are sourced locally. Further, 47% of agricultural raw materials (sorghum, cassava) were also sourced in Nigeria, with a target of 60% by 2020. Controlling operating costs helped the company remain afloat amid economic headwinds.

2017

In December, Nigeria Breweries announced the launch of Stella Lager beer, an international premium beer. This will help it capture a growing slice of the premium market with a higher quality product, aimed at wealthier consumers.

Despite the current challenging operating environment in Nigeria, Nigerian Breweries reported H117 profit after tax of NGN23.7bn, which represents a year-on-year increase of 24.5%. Price increases introduced in 2016 saw the company's revenue increase 15% y-o-y reaching NGN181.0bn.

In July 2017, Nigerian Breweries launched a zobo flavoured alcoholic drink Ace Desire into the Nigerian market. The product launch underscores the company's attempts to establish itself as a leader in the Ready-To-Drink category and pursue innovations.

2016

Nigerian Breweries continues to expand production capacity. In May 2016 it commenced production of its Star Lite Beer at the Kakuri Brewery as a result of rising demand in the region. The company has also invested in a refurbishment at the Aba Brewery. In its latest interim results, released in October 2016, Nigerian Breweries noted it faced a challenging market with growth restricted largely to the budget/value sector.

Financial Data

Sales

Fiscal year ending 31 December

- 2018: NGN324.4bn
- 2017: NGN344.0bn
- 2016: NGN313.7bn
- 2015: NGN293.9bn
- 2014: NGN266.4bn
- 2013: NGN268.6bn
- 2012: NGN252.7bn

SPAR Nigeria

SWOT Analysis

Strengths	• SPAR is one of the few retailers in the country to operate a chain of stores. • The company stocks a wide range of products in a clean environment, making it a relatively unique shopping experience. • The Cakes 'n' Bakes food-processing section is particularly popular with consumers who have taken to its array of fresh cakes, breads and pastries.
Weaknesses	• The retailer operates only 10 stores, a limited presence that leaves it vulnerable to competition. • The underdeveloped and inefficient state of the domestic food processing industry forces SPAR to import a high proportion of its stock, which prices out much of the country's price-sensitive consumer base. • With foreign investment into the sector rising, SPAR must decide whether it wants to compete on volume by increasing its own store presence, which would require significant investment, or if it intends to brand itself as an upmarket retailer.
Opportunities	• The grossly underdeveloped state of Nigeria's mass grocery retail industry means that significant expansion opportunities remain. • As a domestic company that is familiar with the local business environment, SPAR is in a stronger position to expand than its international rivals. • Nigeria benefits from an expanding and aspirational middle class.
Threats	• The expansion of low-cost South African retailer Shoprite, which currently has a store presence of seven outlets, poses a major threat to SPAR. • The launch of Walmart-owned Massmart as well as South African Pick 'n Pay could further increase competition. • The poor state of Nigeria's infrastructure and the prevalence of corruption make potential expansion efforts difficult and costly. • Ongoing security concerns in Nigeria's northern regions and the related uncertainty, paired with high rates of inflation, are affecting consumer spending.

Company Overview

SPAR, formerly Park 'n' Shop, is one of Nigeria's leading grocery retailers in terms of network size, and is one of only a few retailers in the country that operates as a chain. It is owned by Artee Group, which has holdings in a number of retail sectors, including in the development of shopping malls.

Strategy

For a number of years, Park 'n' Shop enjoyed its status as the market leader in the Nigerian mass grocery retail industry and it was one of only a few retailers to have a number of outlets. With the entrance of South Africa's Shoprite and its rapid expansion, with around 20 stores in operation and more in development, Park 'n' Shop has been forced to re-evaluate its expansion strategy and pursue a more aggressive approach, expanding more rapidly in order to hold onto its customer base.

In 2010, Park 'n' Shop partnered up with Dutch retailer SPAR to launch joint stores. Park 'n' Shop benefits from SPAR's international reputation and know-how, while SPAR benefits from the Nigerian retailer's knowledge of the local market and existing store network. Growth through organic means is also an avenue, with outlets using their superior floor space in order to offer a wider product range and more in-store services than their smaller rivals. Stores are now primarily operated under the SPAR brand - there are 14 stores located in Nigeria.

Recent Developments

2018

In November, SPAR opened its 14th store in Nigeria, located in Lagos and is claimed to be its largest hypermarket in the country, bringing the total to 45,000sq m of retail space. SPAR now has eight stores in Lagos, two each in Abuja and Port Harcourt and one each in Enugu and Calabar.

2017

SPAR introduced free Wi-Fi in its 12 stores across Nigeria. The value-added service is becoming increasingly important in drawing in shoppers to grocery chains, especially among the youth segment of the population.

In December, SPAR opened a new location in the Tejuosho Ultra-Modern Shopping Centre, in Yaba, Lagos.

2016

Artee Group is planning on expanding the SPAR brand format in Nigeria. The company was aiming to have stores in five cities by the end of 2016 giving over 40,000sq m of retail space through 12 stores. Potential target cities include Abia, Enugu and Asaba.

Revenues

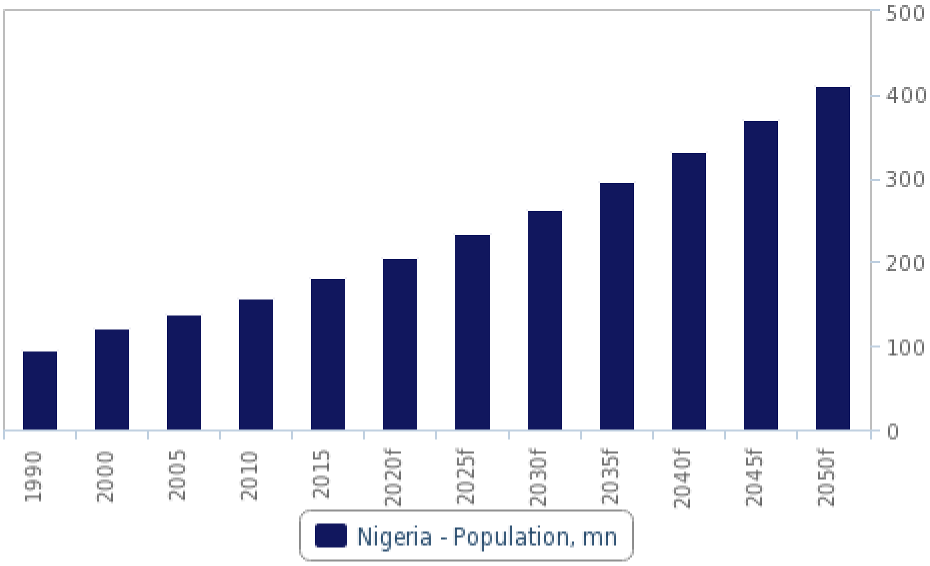
2017: EUR115,5mn

Nigeria Demographic Outlook

Demographic analysis is a key pillar of our macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

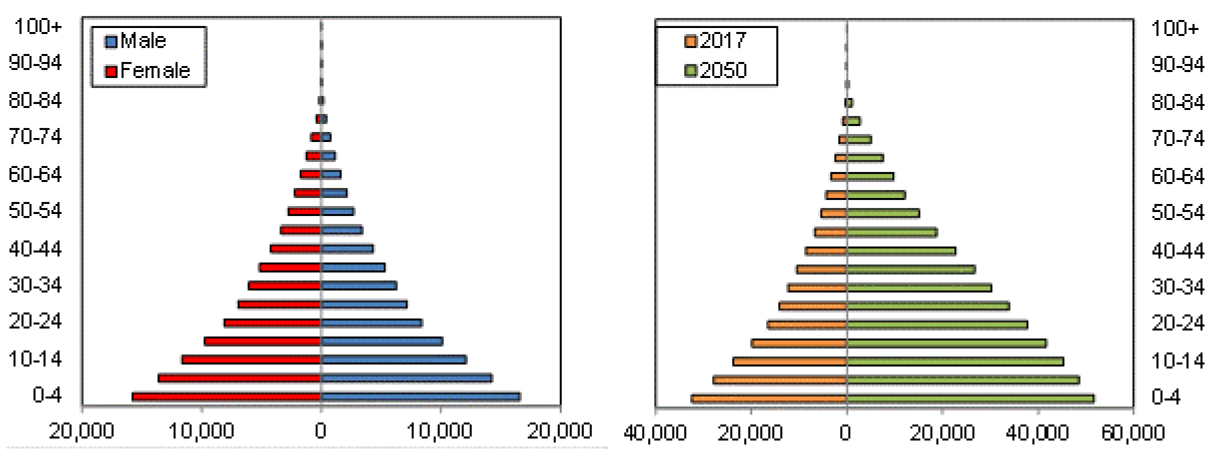
The accompanying charts detail the population pyramid for 2017, the change in the structure of the population between 2017 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population
(1990-2050)



f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Nigeria Population Pyramid
2017 (LHS) & 2017 Versus 2050 (RHS)



Source: World Bank, UN, Fitch Solutions

POPULATION HEADLINE INDICATORS (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, total, '000	95,270.0	122,352.0	138,939.5	158,578.3	181,181.7	206,152.7	233,691.9
Population, % y-o-y		2.53	2.62	2.70	2.68	2.58	2.51
Population, total, male, '000	47,928.9	61,684.9	70,160.0	80,204.2	91,768.7	104,524.8	118,562.9
Population, total, female, '000	47,341.1	60,667.1	68,779.5	78,374.1	89,413.0	101,627.9	115,128.9
Population ratio, male/female	1.01	1.02	1.02	1.02	1.03	1.03	1.03

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

KEY POPULATION RATIOS (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Active population, total, '000	49,681.5	65,560.5	74,459.2	84,414.5	96,296.0	110,907.5	128,253.5
Active population, % of total population	52.1	53.6	53.6	53.2	53.1	53.8	54.9
Dependent population, total, '000	45,588.5	56,791.6	64,480.3	74,163.8	84,885.7	95,245.2	105,438.4
Dependent ratio, % of total working age	91.8	86.6	86.6	87.9	88.2	85.9	82.2
Youth population, total, '000	42,845.6	53,347.3	60,672.2	69,822.7	79,928.3	89,595.2	98,881.2
Youth population, % of total working age	86.2	81.4	81.5	82.7	83.0	80.8	77.1
Pensionable population, '000	2,742.9	3,444.2	3,808.1	4,341.0	4,957.5	5,650.0	6,557.2
Pensionable population, % of total working age	5.5	5.3	5.1	5.1	5.1	5.1	5.1

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

URBAN/RURAL POPULATION & LIFE EXPECTANCY (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Urban population, '000	28,276.1	42,627.4	54,289.2	68,949.8	86,561.4	106,638.7	129,131.1
Urban population, % of total	29.7	34.8	39.1	43.5	47.8	51.7	55.3
Rural population, '000	66,993.9	79,724.6	84,650.3	89,628.4	94,620.4	99,514.0	104,560.8
Rural population, % of total	70.3	65.2	60.9	56.5	52.2	48.3	44.7
Life expectancy at birth, male, years	44.7	45.4	47.5	50.1	52.2	54.4	56.4
Life expectancy at birth, female, years	47.2	47.2	49.0	51.6	53.8	56.1	58.4
Life expectancy at birth, average, years	45.9	46.3	48.2	50.8	53.0	55.2	57.4

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, total, '000	16,808.7	21,083.5	24,325.6	27,699.3	31,109.2	33,914.2	36,830.0
Population, 5-9 yrs, total, '000	14,066.1	17,217.6	19,698.2	23,021.7	26,417.7	29,887.1	32,768.2
Population, 10-14 yrs, total, '000	11,970.9	15,046.2	16,648.3	19,101.7	22,401.4	25,793.9	29,283.0
Population, 15-19 yrs, total, '000	9,873.7	13,315.5	14,628.9	16,213.2	18,648.9	21,923.3	25,319.8
Population, 20-24 yrs, total, '000	7,995.2	11,266.8	12,810.6	14,102.2	15,671.5	18,076.4	21,341.5
Population, 25-29 yrs, total, '000	6,722.1	9,154.2	10,783.6	12,292.0	13,565.3	15,115.8	17,517.4
Population, 30-34 yrs, total, '000	5,653.0	7,356.3	8,739.2	10,319.2	11,795.2	13,052.3	14,612.2
Population, 35-39 yrs, total, '000	4,723.9	6,158.7	7,006.5	8,345.9	9,884.0	11,331.0	12,595.7
Population, 40-44 yrs, total, '000	4,126.6	5,142.6	5,839.0	6,665.1	7,964.6	9,463.4	10,898.2
Population, 45-49 yrs, total, '000	3,535.2	4,246.9	4,840.7	5,516.4	6,319.8	7,580.9	9,049.1

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 50-54 yrs, total, '000	2,903.3	3,631.8	3,941.1	4,511.8	5,165.1	5,945.6	7,166.7
Population, 55-59 yrs, total, '000	2,329.1	2,993.9	3,285.5	3,587.2	4,131.1	4,759.0	5,508.1
Population, 60-64 yrs, total, '000	1,819.4	2,293.6	2,584.1	2,861.3	3,150.5	3,659.8	4,244.8
Population, 65-69 yrs, total, '000	1,318.1	1,628.7	1,826.3	2,085.7	2,336.5	2,605.0	3,053.3
Population, 70-74 yrs, total, '000	829.6	1,037.9	1,136.6	1,300.4	1,508.6	1,719.0	1,940.3
Population, 75-79 yrs, total, '000	411.1	534.9	580.4	654.6	764.6	907.6	1,052.3
Population, 80-84 yrs, total, '000	147.6	194.6	211.9	239.6	277.1	333.4	405.5
Population, 85-89 yrs, total, '000	32.3	42.7	47.0	54.0	62.7	75.3	93.6
Population, 90-94 yrs, total, '000	3.9	5.1	5.4	6.4	7.5	9.1	11.4
Population, 95-99 yrs, total, '000	0.2	0.3	0.4	0.4	0.5	0.6	0.8
Population, 100+ yrs, total, '000	0.0	0.0	0.0	0.0	0.0	0.0	0.0

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

POPULATION BY AGE GROUP % (NIGERIA 1990-2025)

Indicator	1990	2000	2005	2010	2015	2020f	2025f
Population, 0-4 yrs, % total	17.64	17.23	17.51	17.47	17.17	16.45	15.76
Population, 5-9 yrs, % total	14.76	14.07	14.18	14.52	14.58	14.50	14.02
Population, 10-14 yrs, % total	12.57	12.30	11.98	12.05	12.36	12.51	12.53
Population, 15-19 yrs, % total	10.36	10.88	10.53	10.22	10.29	10.63	10.83
Population, 20-24 yrs, % total	8.39	9.21	9.22	8.89	8.65	8.77	9.13
Population, 25-29 yrs, % total	7.06	7.48	7.76	7.75	7.49	7.33	7.50
Population, 30-34 yrs, % total	5.93	6.01	6.29	6.51	6.51	6.33	6.25
Population, 35-39 yrs, % total	4.96	5.03	5.04	5.26	5.46	5.50	5.39
Population, 40-44 yrs, % total	4.33	4.20	4.20	4.20	4.40	4.59	4.66
Population, 45-49 yrs, % total	3.71	3.47	3.48	3.48	3.49	3.68	3.87
Population, 50-54 yrs, % total	3.05	2.97	2.84	2.85	2.85	2.88	3.07
Population, 55-59 yrs, % total	2.44	2.45	2.36	2.26	2.28	2.31	2.36
Population, 60-64 yrs, % total	1.91	1.87	1.86	1.80	1.74	1.78	1.82
Population, 65-69 yrs, % total	1.38	1.33	1.31	1.32	1.29	1.26	1.31
Population, 70-74 yrs, % total	0.87	0.85	0.82	0.82	0.83	0.83	0.83
Population, 75-79 yrs, % total	0.43	0.44	0.42	0.41	0.42	0.44	0.45
Population, 80-84 yrs, % total	0.15	0.16	0.15	0.15	0.15	0.16	0.17
Population, 85-89 yrs, % total	0.03	0.03	0.03	0.03	0.03	0.04	0.04
Population, 90-94 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

na = not available; f = Fitch Solutions forecast. Source: World Bank, UN, Fitch Solutions

Food & Drink Glossary

Food & Drink

Food Consumption: All four food consumption indicators (food consumption in local currency, food consumption in US dollar terms, per capita food consumption and food consumption as a percentage of GDP) relate to off-trade food and non-alcoholic drinks consumption, unless stated in the relevant table/section.

Off-trade: Relates to an item consumed away from the premises on which it was purchased. For example, a bottle of water bought in a supermarket would count as off-trade, while a bottle of water purchased as part of a meal in a restaurant would count as on-trade.

Canned Food: Relates to the sale of food products preserved by canning. This is inclusive of canned meat and fish, canned ready meals, canned desserts and canned fruits and vegetables. Volume sales are measured in tonnes as opposed to on a unit basis to allow for cross-market comparisons.

Confectionery: Refers to retail sales of chocolate, sugar confectionery and gum products. Chocolate sales include chocolate bars and boxed chocolates; gum sales incorporate both bubble gum and chewing gum; and sugar confectionery sales include hard-boiled sweets, mints, jellies and medicated sweets.

Trade: In the majority of Fitch Solutions' Food & Drink reports, we use the UN Standard International Trade Classification, using categories Food and Live Animals, Beverages and Tobacco, Animal and Vegetable Oils, Fats and Waxes and Oil-seeds and Oleaginous Fruits. Where an alternative classification is used due to data availability, this is clearly stated.

Drinks Sales: Soft drinks sales (including carbonates, fruit juices, energy drinks, bottled water, functional beverages and ready-to-drink tea and coffee), alcoholic drinks sales (including beer, wine and spirits) and tea and coffee sales (excluding ready-to-drink tea and coffee products that are incorporated under Fitch Solutions' soft drinks banner) are all off-trade only, unless stated.

Mass Grocery Retail

Mass Grocery Retail: Fitch Solutions classifies mass grocery retail (MGR) as organised retail, performed by companies with a network of modern grocery retail stores and modern distribution networks. MGR differs from independent or traditional retail, which relates to informal, independent-owned grocery stores or traditional market retailing. MGR incorporates hypermarket, supermarket, convenience and discount retailing, and in unique cases cooperative retailing. Where supermarkets are independently owned and not classified as MGR, Fitch Solutions will state so clearly within the relevant report.

Hypermarket: Fitch Solutions classifies hypermarkets as retail outlets selling both groceries and a large range of general merchandise goods (non-food items) and typically more than 2,500sq m in size. Traditionally only found on the outskirts of towns, hypermarkets are increasingly appearing in urban locations.

Supermarket: Supermarkets are the original and still most globally prevalent form of self-service grocery retail outlet. Fitch Solutions classifies supermarkets as more than 300sq m, up to the size of a hypermarket. The typical supermarket carries both fresh and processed food and will stock a range of non-food items, most commonly household and beauty goods. The average supermarket will increasingly offer some added-value services, such as dry cleaning or in-store ATMs.

Discount Stores: Although most commonly between 500sq m and 1,500sq m in size, similar to supermarkets, discount stores will typically have a smaller floor space than their supermarket counterparts. Other distinguishing features include the prevalence of low-priced and private label goods, an absence of added-value services, often called a no-frills environment, and a high product turnover rate.

Convenience Stores: Fitch Solutions' classification of convenience stores includes small outlets typically less than 300sq m in size, with long opening hours and located in high footfall areas. These stores mainly sell fast-moving food and drink products (such as confectionery, beverages and snack foods) and non-food items, typically stocking only two or three brand choices per item and often carrying higher prices than other forms of grocery store.

Cooperatives: Fitch Solutions classifies cooperatives as retail stores that are independently owned but club together to form buying groups under a cooperative arrangement, trading under the same banner, although each is privately owned. The arrangement is similar to a franchise system, although all profits are returned to members. The term is becoming more archaic, with fewer cooperatives remaining that conform to this model. Most cooperative groups now have a more centralised management structure, operate more like normal supermarkets, and are thus classified as such in Fitch Solutions' reports.

Food & Drink Methodology

Fitch Solutions Food & Drink Forecasting & Sourcing

How We Generate Our Industry Forecasts

Fitch Solutions' industry forecasts are generated using the best-practice techniques of time-series modelling and causal/ econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined. Fitch Solutions mainly uses OLS estimators and in order to avoid relying on subjective views and encourage the use of objective views, Fitch Solutions uses a 'general-to-specific' method. Fitch Solutions mainly uses a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example a deep industry recession, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately-selected regression models. Fitch Solutions selects the best model according to various different criteria and tests, including, but not exclusive to:

- R2 tests explanatory power; Adjusted R2 takes degree of freedom into account
- Testing the directional movement and magnitude of coefficients
- Hypothesis testing to ensure co-efficients are significant (normally t-test and/or P-value)
- All results are assessed to alleviate issues related to auto-correlation and multi-co-linearity

Fitch Solutions uses the selected best model to perform forecasting.

It must be remembered that human intervention plays a necessary and desirable role in all of Fitch Solutions' industry forecasting. Experience, expertise and knowledge of industry data and trends ensures that analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Within the Food & Drink industry, this intervention might include, but is not exclusive to: significant company expansion plans; new product development that might influence pricing levels; dramatic changes in local production levels; product taxation; the regulatory environment and specific areas of legislation; changes in lifestyles and general societal trends; the formation of bilateral and multilateral trading agreements and negotiations; political factors influencing trade; and the development of the industry in neighbouring markets that are potential competitors for foreign direct investment.

Example of Food Consumption Model:

(Food Consumption)t = β0 + β1*(GDP)t + β2*(Inflation)t + β3*(Lending Rate)t + β4* (Foreign Exchange Rate)t + β5*(Government Expenditure)t + β6*(Food Consumption)t-1 + εt

Sourcing

Fitch Solutions uses the following sources in the compilation of data, developments and analysis for its range of Food & Drink reports: national statistics offices; local industry governing-bodies and associations; local trade associations; government departments, particularly trade, agricultural and commerce ministries; officially-released information and financial results from local and multinational companies; cross-referenced information from local and international news agencies and trade press outlets; figures from global organisations, such as the World Trade Organization (WTO), the World Health Organization (WHO), the United Nations Food and Agricultural Organization (FAO) and the Organisation for Economic Co-operation and Development (OECD).

Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index

Our Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index (RRI) quantifies and ranks a country's attractiveness within the context of the Food & Drink (Non-Alcoholic Drinks) industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different countries.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision making in a given industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of:

1) the balance between opportunities and risk; and

2) between sector-specific and broader market traits.

This enables users of the index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessments of the regulatory climate. As regulations evolve and forecasts change, so the index scores change providing a highly dynamic and forward-looking result.

The Food & Drink (Non-Alcoholic Drinks) Risk/Reward Index universe comprises **107 countries**.

Benefits of using Fitch Solutions' Food & Drink (Non-Alcoholic Drinks) RRI

- **Global Rankings:** One global table, ranking all the countries in Fitch Solutions' universe for Food & Drink (Non-Alcoholic Drinks) from least (closest to zero) to most attractive (closest to 100).
- **Accessibility:** Easily accessible, top down view of the global, regional or sub-regional Risk/Reward profiles.
- **Comparability:** Identical methodology across 107 countries for Food & Drink (Non-Alcoholic Drinks) allows users to build lists of countries they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the more favourable the country profile.
- **Quantifiable:** Quantifies the rewards and risks of doing business in the Food & Drink (Non-Alcoholic Drinks) sector in different countries around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.
- Entry Point: A starting point to assess the outlook for the Food & Drink (Non-Alcoholic Drinks) sector, from which users can dive into more granular forecasts and analyses to gain a deeper understanding of the market.
- **Balanced: Multi**-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- Methodology is a combination of proprietary Fitch Solutions forecasts, analyst insights and globally acceptable benchmark indicators (for example, World Bank's Doing Business Scores, Transparency International's Corruption Perceptions Index).

Weightings Of Categories And Indicators

Source: Fitch Solutions

The RRI matrix is divided into two distinct categories:

Rewards

Evaluation of an industry's size **and** growth potential (**Industry Rewards**), and also macro industry and/or country characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).

Risks

Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the country's political, economic and operational profile (**Country Risks**).

Assessing Our Weightings

Our matrix is deliberately overweight on Rewards (60% of the final RRI score for a market) and within that, the Industry Rewards segment (60% of the final Rewards score). This is to reflect the fact that when it comes to long-term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure availability) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in emerging and frontier markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in countries where regulatory frameworks are not as developed and industry sizes are not as big (in USD terms) as in developed markets, but where we know there is a strong desire to invest.

Indicators - Explanation And Sources

FOOD & DRINK (NON-ALCOHOLIC DRINKS) RISK/REWARD INDEX, INDICATORS		
	Source	**Rationale**
Rewards		
Industry Rewards		
F&D Spending Per Capita	**Fitch Solutions Forecast**	Denotes per capita spending on food & non-alcoholic drinks in USD. Wealthier populations spend more on F&D products.
F&D Five-Year Growth Rate	**Fitch Solutions Forecast**	Denotes food & non-alcoholic drinks sector dynamism as a %. Scores based on annual average growth over our five-year forecast period.
Total F&D Expenditure	**Fitch Solutions Forecast**	Denotes total household spending on food & non-alcoholic drinks in USDbn. Large markets score higher than smaller ones.
Country Rewards		
Population	**Fitch Solutions Forecast**	Size of the population in millions as a measure for the total addressable market.
Mass Affluent Class	**Fitch Solutions Forecast**	Proportion of households with an income that exceeds USD10,000. Excludes those in poverty but demonstrates potential demand for branded products.
Urban Population	**Fitch Solutions Forecast**	Size of the urban population in millions. Higher urban population size is a positive for distribution, higher economic development and accessing products through a network of retailers.
Spending Population	**Fitch Solutions Forecast**	Proportion of the population between 20-39 years old as a %. This is typically the range that companies target as a high spending/ trendsetting generation.
Risks		
Industry Risks		
Regulatory Environment	**Fitch Solutions Operational Risk Index**	Uses Operational Risk's Economic Openness as a proxy for determining the ease of entering and doing business in a market.
F&D Formalisation	**Fitch Solutions Forecast**	Uses our urban/rural split (%) data as a proxy for determining the level of retail/hospitality formalisation in the market. Highly urbanised markets allow companies to easily serve more consumers.
Logistics Risk	**Fitch Solutions Operational Risk Index**	Uses Operational Risk's Logistics Risk to determine the risks and costs associated with moving products around a market. Higher scores indicate quality transport, cheap fuel/electricity and high levels of tech adoption
Country Risks		
Long-Term Economic Risk Index	**Fitch Solutions Country Risk Index**	The Long-Term Economic Risk Index takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short-Term Economic Risk Index	**Fitch Solutions Country Risk Index**	The Short-Term Economic Risk Index seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years
Long-Term Political Risk Index	**Fitch Solutions Country Risk Index**	The Long-term Political Risk Index assesses a country's structural political characteristics based on our assumption that liberal, democratic states

	Source	Rationale
		with no sectarian tensions and broad-based income equality exhibit the strongest characteristics in favour of political stability, over a multiyear timeframe.
Short-Term Political Risk Index	**Fitch Solutions Country Risk Index**	The Short-Term Political Risk Index assesses pertinent political risks to investment climate stability over a shorter time frame, up to 24 months forward.
Operational Risk Index	**Fitch Solutions Operational Risk Index**	The Operation Risk Index focuses on existing conditions relating to four main risk areas: Labour Market, Trade and Investment, Logistics, and Crime and Security.

Source: Fitch Solutions

Food & Drink (Alcoholic Drinks) Risk/Reward Index

Our Food & Drink (Alcoholic Drinks) Risk/Reward Index (RRI) quantifies and ranks a country's attractiveness within the context of the Food & Drink (Alcoholic Drinks) industry, based on the balance between the **Risks** and **Rewards** of entering and operating in different countries.

We combine industry-specific characteristics with broader economic, political and operational market characteristics. We weight these inputs in terms of their importance to investor decision making in a given industry. The result is a nuanced and accurate reflection of the realities facing investors in terms of:

1) the balance between opportunities and risk; and

2) between sector-specific and broader market traits.

This enables users of the index to assess a market's attractiveness in a regional and global context.

The index uses a combination of our proprietary forecasts and analyst assessments of the regulatory climate. As regulations evolve and forecasts change, so the index scores change providing a highly dynamic and forward-looking result.

The Food & Drink (Alcoholic Drinks) Risk/Reward Index universe comprises **90 countries**.

Benefits of using Fitch Solutions' Food & Drink (Alcoholic Drinks) RRI

- **Global Rankings:** One global table, ranking all the countries in Fitch Solutions' universe for Food & Drink (Alcoholic Drinks) from least (closest to zero) to most attractive (closest to 100).
- **Accessibility:** Easily accessible, top down view of the global, regional or sub-regional risk/reward profiles.
- **Comparability:** Identical methodology across 90 countries for Food & Drink (Alcoholic Drinks) allows users to build lists of countries they wish to compare, beyond the confines of a global or regional grouping.
- **Scoring:** Scores out of 100 with a wide distribution, provide nuanced investment comparisons. The higher the score, the more favourable the country profile.
- **Quantifiable:** Quantifies the rewards and risks of doing business in the Food & Drink (Alcoholic Drinks) sector in different countries around the world and helps identify specific flashpoints in the overall business environment.
- **Comprehensive:** Comprehensive set of indicators, assessing industry-specific risks and rewards alongside political, economic and operating risks.
- **Entry Point:** A starting point to assess the outlook for the Food & Drink (Alcoholic Drinks) sector, from which users can dive into more granular forecasts and analysis to gain a deeper understanding of the market.

- **Balanced:** Multi-indicator structure prevents outliers and extremes from distorting final scores and rankings.
- Methodology is a combination of proprietary Fitch Solutions forecasts, analyst insights and globally acceptable benchmark indicators (for example, World Bank's Doing Business Scores, Transparency International's Corruption Perceptions Index).

Weightings Of Categories And Indicators

Source: Fitch Solutions

The RRI matrix is divided into two distinct categories:

Rewards

Evaluation of an industry's size *and* growth potential (**Industry Rewards**), and also macro industry and/or country characteristics that directly impact the size of business opportunities in a specific sector (**Country Rewards**).

Risks

Evaluation of micro, industry-specific characteristics, crucial for an industry to develop to its potential (**Industry Risks**) and a quantifiable assessment of the country's political, economic and operational profile (**Country Risks**).

Assessing our Weightings

Our matrix is deliberately overweight on Rewards (60% of the final RRI score for a market) and within that, the Industry Rewards segment (60% of the final Rewards score). This is to reflect the fact that when it comes to long-term investment potential, industry size and growth potential carry the most weight in indicating opportunities, with other structural factors (demographic, labour statistics and infrastructure availability) weighing in, but to a slightly lesser extent. In addition, our focus and expertise in emerging and frontier markets has dictated this bias towards industry size and growth to ensure we are able to identify opportunities in countries where regulatory frameworks are not as developed and industry sizes are not as big (in USD terms) as in developed markets, but where we know there is a strong desire to invest.

Indicators - Explanation And Sources

FOOD & DRINK (ALCOHOLIC DRINKS) RISK/REWARD INDEX, INDICATORS	Source	Rationale
Rewards		
Industry Rewards		
Alcohol Consumption Per Capita	**Fitch Solutions Forecast**	Denotes per capita consumption of Alcoholic Drinks in litres. Measures which populations consume more on alcohol products at the individual level rather than total size.
Alcohol 5-Year Growth Rate	**Fitch Solutions Forecast**	Denotes Alcoholic Drinks sector dynamism as a %. Scores based on annual average growth over our five-year forecast period.
Total Alcohol Consumption	**Fitch Solutions Forecast**	Denotes total consumption of Alcoholic Drinks in millions of litres. Large markets score higher than smaller ones.
Country Rewards		
Population	**Fitch Solutions Forecast**	Size of the population in millions as a measure for the total addressable market.
Mass Affluent Class	**Fitch Solutions Forecast**	Proportion of households with an income that exceeds USD10,000. Excludes those in poverty but demonstrates potential demand for branded alcohol products.
Urban Population	**Fitch Solutions Forecast**	Size of the urban population in millions. Higher urban population size is a positive for distribution, higher economic development and accessing products through a network of retailers.
Spending Population	**Fitch Solutions Forecast**	Proportion of the population between 20-39 years old as a %. This is typically the range that companies target as a high spending/trendsetting generation and are generally over the legal drinking age.
Risks		
Industry Risks		
Regulatory Environment	**Fitch Solutions Operational Risk Index**	Uses Operational Risk's Economic Openness as a proxy for determining the ease of entering and doing business in a market.
F&D Formalisation	**Fitch Solutions Forecast**	Uses our Urban/Rural Split (%) data as a proxy for determining the level of retail/hospitality formalisation in the market. Highly urbanised markets allow companies to easily serve more consumers.
Logistics Risk	**Fitch Solutions Operational Risk Index**	Uses Operational Risk's Logistics Risk to determine the risks and costs associated with moving products around a market. Higher scores indicate quality transport, cheap fuel/electricity and high levels of tech adoption
Country Risks		
Long Term Economic Risk Index	**Fitch Solutions Country Risk Index**	The LT ERI takes into account the structural characteristics of economic growth, the labour market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks for the coming decade.
Short Term Economic Risk Index	**Fitch Solutions Country Risk Index**	The ST ERI seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years
Long Term Political Risk Index	**Fitch Solutions Country Risk Index**	The LT PRI assesses a country's structural political characteristics based on our assumption that liberal, democratic states with no sectarian tensions

	Source	Rationale
		and broad-based income equality exhibit the strongest characteristics in favour of political stability, over a multiyear timeframe.
Short Term Political Risk Index	**Fitch Solutions Country Risk Index**	The ST PRI assesses pertinent political risks to investment climate stability over a shorter time frame, up to 24 months forward.
Op Risk Index	**Fitch Solutions Operational Risk Index**	The ORI focuses on existing conditions relating to four main risk areas: Labour Market, Trade and Investment, Logistics, and Crime and Security.

Source: Fitch Solutions

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