Introduction

Manufacturing and industrial ventures have proved to be vital in any economy, especially developing economies. Foreign companies have taken a key interest in African markets, increasingly setting up in developing economies. The most recent examples include Tullow Oil in Kenya and Uganda, where oil and natural gas deposits have been discovered in substantial amounts since 2012 in the case of the former. While manufacturing ventures are aimed at directly supplying an operation in which the manufacturer is involved, there are manufacturing ventures which supply other manufacturers in symbiotic relationships. This report analyzes the operations of one such entity, Atlas African Industries Limited. It will provide details of its performance and product portfolio as well as brand distribution and the risks to which the company is exposed in its operations. A conclusion will summarize the key points of the report.

Corporate Analysis

About the Company

Atlas African Industries Limited (Atlas hereon) is an entity which is involved in large scale manufacturing and other industrial projects. In its operations, the company is specifically divided into 3 broad divisions; Atlas Technical, Atlas Services and Atlas Logistics. The technical division is involved in civil engineering and construction while the services division is in charge of medical and facilities management. Logistics is involved in providing transportation, fuel solutions and storage for clients. Atlas was formerly known as Atlas Development & Support Services in Kenya, a name which was changed in the first quarter of 2016. The company is listed on the Nairobi Securities Exchange (NSE) under its new name, but as at the end of March 2016, still operated under its former name's stock ticker ADSS. Additionally, Atlas is listed on the London Stock Exchange's (LSE) Alternative Investment Market and operates under the ticker AAI. The main focus of operation of the company is the Ethiopian consumer market, with a heavy presence in the country. Atlas is based in Ethiopia.

Product Portfolio

- Infrastructure and Logistics

Atlas is in a joint venture partnership with Orchid Business Group PLC on a 50:50 basis to provide infrastructural, logistics and construction services to the Ethiopian people and other interested parties. Within the partnership, Atlas is charged with ensuring the joint venture operates in line with health, quality and safety standards while Orchid is in charge of operations. Capacity-building is also key in the joint venture's agenda, through training and development programs. In Kenya, Atlas is noted to be involved in oil and gas infrastructural support. This is fueled by the 2012 discovery of oil in Kenya by Tullow Oil, with subsequent exploration yielding gas deposits as well.

- Industrial Activity

The company is set to construct a glass bottle manufacturing plant in Chancho, 45km from Addis Ababa, the Ethiopian capital in a $42 million project dubbed the *Chancho Project*. The facility is set to provide cheaper bottles for beverage manufacturers in the country, with the top targets being beer companies. Beer manufacturer Raya Brewery Share Company, Ethiopia's leading brewer signed a contract with Atlas in March 2016 for the latter to supply bottles. This makes Raya one of the first beneficiaries of the Chancho Project. In the country, beer production has been noted to have grown 14.3% over the past 14 years. The Chancho Project is in line with the Ethiopian Government's vision to prioritize manufacturing in the country in a long term strategic plan that is similar to Kenya's Vision 2030. Availability of raw materials for use in the bottle manufacture within the country is set to significantly cut down on production costs. The Chancho Project will be undertaken by a subsidiary company, East African Packaging Holdings, in which Atlas has a 100% stake.

Brand Distribution

Atlas primarily operates in Ethiopia, where it is involved in a number of strategic projects in line with the country's development agenda. In 2014 however, the company expanded its operations to Tanzania, with a tender to provide facilities management, medical infrastructure and logistics services to a drilling company in the country. Atlas also has operations in Kenya, Mozambique and Western Sahara.

Management Analysis

Atlas has a Board of Directors at its topmost level, which is in charge of budgeting, strategic decision-making and undertaking any other corporate actions. This is followed by board committees, under which fall executive and non-executive directors of the company. The committees are in charge of, among other duties, remuneration and audit activities.

The management of Atlas takes on a risk-averse approach to business. This is primarily due to the company's decision to focus on developing a single market as opposed to coverage of a wide geographical area. Additionally, Atlas is involved in a very small number of activities, but such involvement is on a large scale, with very significant financial input. The decision to invest in glass bottle making is informed by the local availability of raw materials, which places the company at a reduced risk of running short of input which would slow down production. With most developing countries seeking to modernize their infrastructure systems, Atlas' involvement with infrastructural development also exposes the company to reduced risk.

The country has a commodity exchange which as at April 2016 does not trade in equities and debts; it mainly concentrates on commodities such as coffee and sesame, which have an international market. As such, the company's decision to dual list on the NSE and the LSE allows Atlas to raise additional capital from a wide shareholder base should the need arise. This dual market presence further illustrates Atlas management's hedging strategy.

Financial Performance

From the financial information available, Atlas has posted losses between 2014 and 2015. Comprehensive losses from continuing operations stood at $1.43 million and $8.45 million respectively. Between 2013 and 2015, the company has not made dividend payments to shareholders, which can be interpreted as a strategy to obtain finances for continued operation. However, the company's financial position as evidenced by its statement of financial position as at the 30th of June of each year has been on the rise between 2013 and 2015. Total assets and total liabilities for 2013, 2014 and 2015 were recorded at $9.65 million, $20.51 million and $36.5 million respectively. Despite its losses, Atlas has attracted an increasing number of shareholders, with shareholder funds for the three years in a steady increase, at $9.5 million, $18.92 million and $28.93 million respectively.

Competition

In Kenya, Atlas' venture into glass bottle-making has no significant competitors. This is after the announcement of the exit of East Africa Breweries Limited (EABL) from bottle-making in 2015, selling off all its Central Glass Industries to South African firm Consol Glass. EABL is Kenya's dominant brewer and distributor of alcoholic beverages, due to its long history in the country and its financial capacity which is boosted by its parent company Diageo.

A number of companies in Kenya offer Atlas competition in terms of construction. They are involved in activities such as outsourcing, project management and supply of construction materials. Such include the likes of Raka Construction Company, Kyaja Construction Consulting and Simncho Building & General Contractors Limited, among others. The competition in construction among both established and informal entities has made venturing into the local scene largely infeasible for Atlas.

On the transport and logistics front, Atlas faces competition from several local organizations. These move cargo across both long and short distances within and outside the country. Among the most recognizable names are Kenfreight East Africa Limited operating in Kenya, Uganda and Rwanda, Mitchell Cotts Kenya Limited, Roy Transmotors Limited and Metro Logistics Limited. Offering better services, competitive prices or a combination of both would help Atlas remain competitive in the country.

Storage and warehousing is widely done in Kenya. Some logistics companies also have warehouses from which they offer large scale storage facilities for their clients. Since Atlas is involved in storage, it is worth mentioning its competitors on the Kenyan front. The list includes but is not limited to Prestige Movers, Mitchell Cotts, Armstrong Movers, Moframovers Kenya Limited and Capital Movers.

Industry Risks

Entry Barriers

The Kenyan market has a significant number of competitors in each of Atlas' areas of involvement. The large number of competitors presents barriers to entry since a large degree of product differentiation in order to maintain a competitive edge. The competitors crowd out new entrants and existing players are forced to keep up with changing trends or risk being phased out.

Technology

Atlas' involvement in construction exposes it to the risk of losing market share due to the use of obsolete technology. Modern construction makes use of more reliable, environmentally friendly, durable and adaptable materials and construction methods. The company is thus obligated to constantly undertake research and development activities in order to retain an edge over its competitors. The application of technology extends into Atlas' transport and storage business, especially in cases where perishables and fragile content are concerned. The glass bottle business in which Atlas is set to invest heavily in its Ethiopia stronghold calls for advanced technology in order to cut carbon emissions, especially in light of the global warming phenomenon worsening in recent years.

Tastes and Preferences

This applies most significantly to Atlas' construction business segment. Modern construction is driven not only by cost considerations but also by individual or corporate tastes and preferences. Where the company is unable to offer creative designs or supply materials that match client needs or sufficiently satisfy them, Atlas risks losing its market share to its competitors. The dynamic nature of tastes and preferences also obliges the company to engage in continuous research and development to keep up with trend changes.

Company Risk

Operational Diversity

Atlas has a relatively narrow product portfolio as has been identified. As such, the company's risk profile is higher in that should one product fail, it has limited recovery options. The company has, however, made attempts to make up for this disparity through the establishment of plants and operations in several countries

Regulation

The company operates under minimal regulation especially in Kenya. As such, the lack of requirement to comply with a myriad of rules gives Atlas operational flexibility and the company is placed in a better profit-making position.

Financial Diversity

Atlas has invested large sums of money in high profile projects. The distribution of such large sums of money across all countries of operation place the company in a position to diversify the finances at its disposal. By so doing, Atlas is can reduce its company risk exposure. . Further risk mitigation lies in the fact that with high risk the company can potentially make high returns, considering the capital intensive nature of industrial-scale investments in oil and infrastructure that Atlas is involved in.

Financial Risk

Profitability

Profitability of the company has been affected by the changing dynamics in its areas of involvement. In Kenya for instance, oil and gas prospecting has been adversely affected by the slump in international oil prices. Therefore, Atlas risks not making up for its financial input in form of returns from successful extraction and commercialization of said oil and gas. Evidence of this is in the 2015 $11 million revenue figure, but at the same time incurring a $2.5 million loss in the same year. Additionally, the decline of its share price is likely to expose the company to additional financial risk. As at April 2016, Atlas trades at KES1.50 per share.

Cash Generation

The company's capacity to generate cash, especially in the Kenyan market has been hampered by a number of factors. Key among these are the slump in global oil prices, making oil and gas exploration infrastructure provision infeasible. Other factors include creditor pressure and the failure of key clients to deliver on their debts. For this reason, Atlas shut down its Kenyan subsidiaries in 2015 in a bid to ensure its cash generation protected.

Conclusion

Despite pulling its operations from the Kenyan market, Atlas is well positioned as a profitable company. Its diversification into a number of countries have so far successfully mitigated the risk exposure attached to its large investment injections in large scale projects. Due to the reduced regulatory environment in the country, the company is exposed to fewer barriers to entry. An enabling environment that supports the company's agenda such as the one present in Ethiopia with regard to manufacturing also works in the Atlas' favor.