

Introduction

Manufacturing is one of the most crucial industries in the modern economy, with products finding interrelated and interdependent applications across several industries and sectors. While what is mainstream is large scale manufacturing, there is a growing need for and uptake of fast moving consumer goods from manufacturing. As such, there has been the rise of manufacturing entities which fall under the growth enterprise market segment (GEMS). This report provides a detailed look at The Flame Tree Group Limited (Flame Tree Group hereon), an entity which falls under the aforementioned market category. It will provide information on the workings of the company, its product portfolio, its reach and the various risks which the company faces. A conclusion will summarize the key points of the report.

Industry Overview

Manufacturing in Kenya is one of the most developed industries after agriculture, which is the country's backbone. The industry grew by 3.1% in 2012 while its contribution to the country's gross domestic product (GDP) stood at 9.2% in the same year. Despite several challenges which have slowed down local manufacturing, key among them being the high cost of operation, several entities have entered the market, making it increasingly attractive and competitive. Fast moving consumer goods in Kenya have also gained popularity, especially with the urban population. Middle income earners have raised their consumption patterns to increasingly accommodate such goods as soft drinks and processed foodstuffs. Kenya's tilt towards fashion and trends has also made cosmetics popular with the youthful population, and the sector has flourished locally. So much has the demand for cosmetics grown that local entrepreneurs are carving a name for themselves with self-branded products such as hairdresser Tony Airo. Flame

Tree Group is involved in the aforementioned market segments, and this report will demonstrate their successes and failures.

Corporate Analysis

About the Company

Flame Tree Group was originally set up in 1989 on the island nation of the Republic of Mauritius, to the east of Madagascar. It operates as a conglomerate which operates in several market categories. The company specializes in fast moving consumer goods, some of which it manufactures itself. It has also acquired a number of companies and entities which are or were involved in the same. as at April 2016, Flame Tree Group operates in Mauritius, Kenya, Rwanda, Mozambique, Ethiopia and Dubai. In Kenya, Flame Tree Group is a publicly traded company which was listed on the Nairobi Securities Exchange (NSE) in November 2014, and operates under the stock ticker FTGH. The company was the first manufacturer listed under GEMS on the bourse, initially trading at KES8 per share. It is headquartered in Nairobi.

Product Portfolio

- Plastics

Roto Tanks is a subsidiary of Flame Tree Group and is majorly known for the manufacture of a range of water tanks for both domestic and larger scale use. The tanks are notably made of plastic in order to reduce the long term adulteration of their content which would arise in the case of the use of aluminum to manufacture the tanks. Other products that this subsidiary of the group

is involved in include road cones, plastic basins, plastic bins, plastic crates and milk cans for large scale milk transportation.

Jojo Tanks was added into the Flame Tree Group portfolio in 2009 and is involved in the design and manufacture of plastic tanks for domestic and commercial scale use. Jojo Plastics Limited was acquired by Flame Tree Group in a bid to expand the latter's footprint on the continent and cut back on competition. Unlike Roto Tanks which has a diversified portfolio, Jojo Tanks specializes solely in water tanks.

- Cosmetics

Zoe is a brand of Flame Tree Group which is involved in the manufacture of lotions and hair care products. It was formally launched in 2005 and enjoys significant local market share, although other local and international products present stiff competition. Examples include Tony Airo, TCB and Venus.

Alana is a brand which offers a variety of hand and body lotions. However, it does not enjoy as significant a market share as Zoe, since the products satisfy the same need and therefore consumer tastes and preferences come into play.

Cerro is a brand under Flame Tree Group which is involved in the manufacture of nail polish products.

In January 2016, the company acquired SuziBeauty, a local cosmetic brand founded by Suzi Wokabi in 2011. Wokabi is set to remain with the brand as its Chief Creative Officer.

SuziBeauty's product portfolio includes lipsticks, mascara, lip gloss, eye shadow and a variety of beauty brushes.

- Food Products

The company is involved in the food market segment through its Happy's Golden snacks which is under its Happy Eaters Kenya Limited subsidiary. The product comes in the form of spiced potato chips, chili sticks and an assortment of spiced nuts.

In 2015, the company acquired Chirag Kenya, a local manufacturer of snacks and spices. Chirag is itself famous for snack brands such as Chigs potato chips, Nature's Own spices, Honeycomb biscuits and Gonuts nuts.

- Other Beauty Products

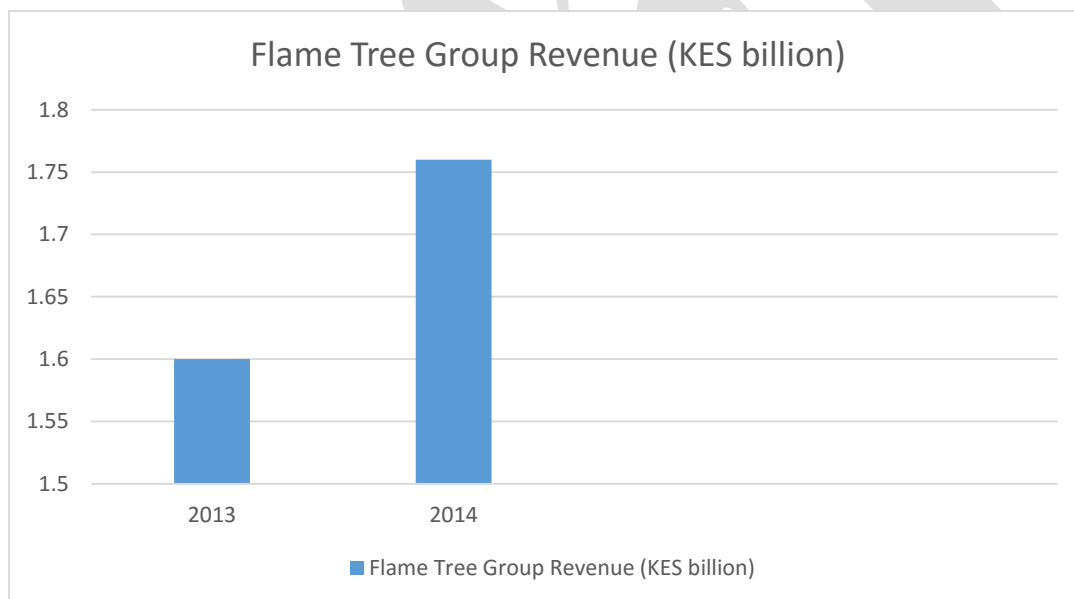
Siora is Flame Tree Group's other beauty product brand, specializing in the production of synthetic hair extensions, wigs and weaves. This brand primarily targets a female clientele base.

- Hardware Trade

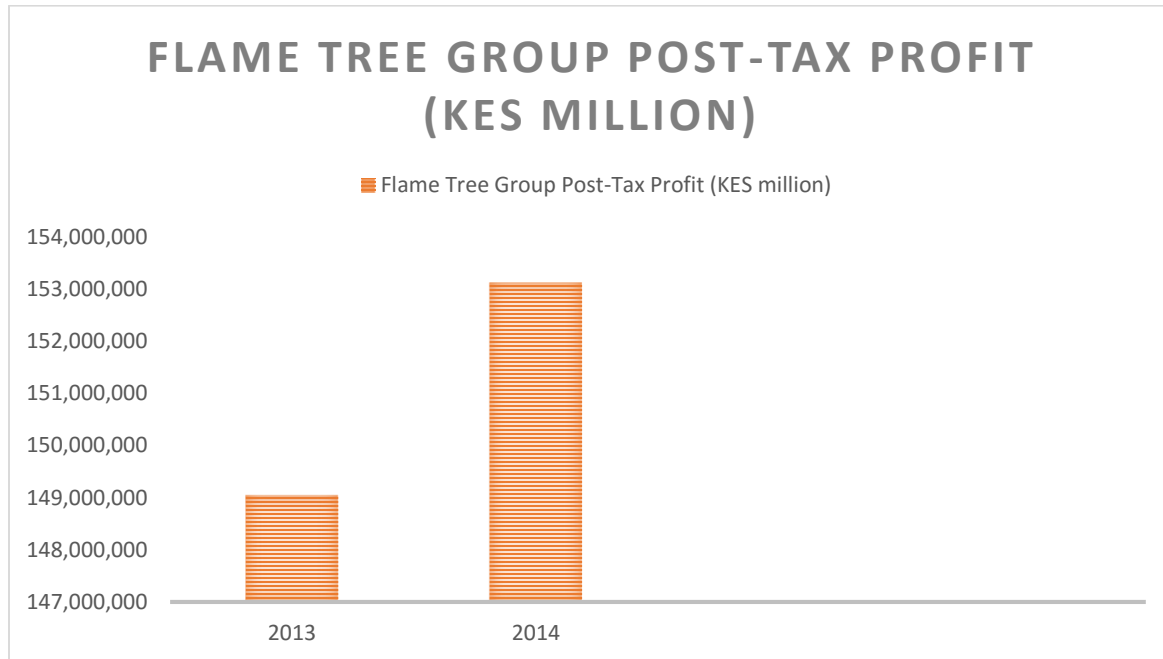
Operating in Rwanda, Buildmart Rwanda supplies hardware materials in the country. Products under this subsidiary include pipes, gate valves, tanks and an assortment of plumbing equipment. The company also supplies construction hardware to the Rwandan market.

Financial Performance

The company has been on a successful and significant rise in recent years according to its financial information. Prior to its listing on the NSE, Flame Tree Group was able to successfully raise KES194 million private placement with institutional investors, further increasing investor faith in the stock upon its listing. It posted a rise in revenue from KES1.6 billion in 2013 to KES1.76 billion in 2014, realizing a 10% increase. After tax profits also increased in the same period from KES149 million to KES153 million. However, the company's earnings per share reduced marginally from KES1.06 to KES0.99 in the same period. The following is a graphical illustration of the changes in revenue and post-tax profits respectively:



Source: Flame Tree Group, 2014



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While in the 6 months to June 2014 revenue amounted to KES778 million, in the same 2015 period revenue rose to KES1.1 billion, with a KES81.21 million post-tax profit in 2015 half year profits compared to KES78.25 million in 2014 (a 3.78% increase). Such margins indicate an entity fast on the rise.

Brand Distribution

Most of the manufacturing plants are located in Nairobi's Industrial Area. However, Flame Tree Group has a national reach and its products are transported throughout the country, majorly by road. Most of its clients are local hardware stores, cosmetics shops and supermarkets.

Competition

In its involvement in a variety of markets, Flame Tree Group faces a number of competitor firms.

In its involvement in plastic products, the company faces competition from Kenpoly, a manufacturer of several plastic products and a significant player in the Kenyan scenario. Some of its products include plastic seats, food containers and protective helmets, among others. Nairobi Plastics Limited supplies the local market with plastic products such as buckets, basins, flexible packing and drums. Other competitor companies include Complast Industries Limited, General Plastics Limited and Kenapen Industries Limited.

SuziBeauty was until its acquisition, the sole local producer of its line of products, the likes of lipsticks, mascara and eye shadow. At the moment, Flame Tree faces no significant competition in this market segment from any local competitor. Imports of the same continue to be the only noteworthy source of competition.

Foodstuff manufacture has a number of sparsely distributed locally based competitors, such as Norda Industries with their *Bitez* brand. The small nature of their operations compared to Flame Tree Group's has allowed the manufacturer to maintain a competitive edge over them. Similar to cosmetics, imported brands are the main threat to Flame Tree, with brands such as Kellogg Company's *Pringles* and Weetabix Limited's *Weetabix* among others.

Industry Risks*Tastes and Preferences*

The company's decision to venture into beauty products has seen it have to keep up with changing consumer tastes and preferences. This is due to the ever-changing trends in the fashion and cosmetics industry, requiring the company to engage in continuous market research to stay ahead of the competition.

Product Obsolescence

Fast moving consumer goods are often subject to hastened product obsolescence. As such, Flame Tree Group has opted to diversify its product offering in order to cushion itself against revenue losses brought about by such obsolescence of any single product.

Entry Barriers

Since the cost of operation is relatively high in Kenya, this has presented a significant barrier to market entry for smaller entities. As such, Flame Tree Group's position has become more secure since it has already established itself and endeared itself to the Kenyan market as a reliable manufacturer. The presence of several regulatory bodies has also worked both for and against the company. Due to increased oversight and regulation, there are lesser new entrants than would be the case in an unregulated market. However, with more regulatory authorities, the manufacturer is forced to comply with several regulatory requirements, which can potentially slow down decision making and execution.

Business Cycles

Manufacturing in Kenya has not been affected by any significant and notable alterations in the business cycle. However, the growth of manufacturing has been slow, hampered by several factors such as regulatory requirements, infrastructural deficits and high costs of operation.

Management Analysis

The company's organizational structure is hierarchical, with the position of a chairperson, the chief executive officer, executive and non-executive directors being the senior-most respectively. As at April 2016, the CEO is Mr Heril Colbert Bangera, who also founded the group.

The management of Flame Tree Group takes on a risk-tolerant approach to business. This is indicated by the company's decision to aggressively expand, which has been an ongoing process both before and after its bourse listing. The group's strategy has been to acquire brands it has considered significant competitors and by so doing, has ended up in a number of product markets, each requiring a specific approach. The acquisition of Chirag Kenya for instance was informed by the its 2014 KES90 million turnover, which Flame Tree Group considered attractive in raising its own turnover.

In terms of financial and operational performance, the company is yet to report any significant losses from any of its brands. Therefore, management has successfully executed an acquisition expansion strategy and has managed to retain a financially strong position. Further evidence of this is in its 2014 dividend payout of KES182,983,160 (\$1.8 million) compared to its 2013 figure of KES89,597,728 (\$883,372).

Business Risks

Flame Tree Group has mitigated its business risk through engagement with a variety of markets and the already mentioned diversification into unrelated products. While most of its plastic products are a necessity in most cases, they have also ventured into the fast-growing cosmetics market. The result of this is that the company has guarded its revenue by investing in a solid market segment and has placed itself in a position to take advantage of a rapidly growing market segment. Further mitigation against risk has been made possible through the company's ownership of several plants which specialize in its various product offerings. This has allowed sufficient space and expertise for each product to ensure the highest possible quality.

Each of Flame Tree's brands can potentially be self-supporting and self-funding. It would thus be possible to make financial reports for individual brands. Flame Tree Group enjoys, from this, financial diversity since profits can be ploughed back into each individual brand and help avoid additional cash calls and share issuance to raise capital.

Regulations as a business risk factor are moderate in Kenya, and so the risk is moderate as well. At the moment, the only regulatory authorities actively involved in manufacturing regulation are Kenya Association of Manufacturers (KAM), Kenya Private Sector Alliance (KEPSA) and the Kenya Revenue Authority (KRA).

Company Risk

The manufacturer has established itself as a stable entity based on its financial information and investment decisions. Its continued success in acquisition and the current positive positions of the acquired subsidiaries is an indication of the low-risk status of the company.

Conclusion

Flame Tree Group is an example of a company which has taken the alternative route of risk tolerance, a philosophy which is considerably rare in Kenya. So far, its financial results indicate success in its adopted market approach, with strong turnover figures and positive media and analyst reports. Diversification into a variety of market segments within the fast moving consumer goods category has seen Flame Tree Group reduce its exposure to risk, thus justifying its quick expansion strategy. The manufacturer has a national reach and a strong distribution chain, especially with supermarket and beauty shop partnerships. Its acquisitions have also allowed access to chains previously under their obtained brands, further broadening its footprint. Expansion in a number of countries has not only made the company financially secure on an international scale, it has also boosted investor confidence in the company's ability to become a giant in the growth enterprise market segment.