Let there be beer!!!

A FOCUS ON THE NIGERIA BREWERY SECTOR
OVERVIEW

The Nigeria brewery industry continues to thrive, even as global consumption slows down due to the recent global economic downturn as well as increasing health awareness. Nigeria is Africa’s largest alcohol consumer, accounting for 36% of Africa’s formal alcohol market according to Deutsche Bank Market Research. Driven largely by huge consumer market with a population constituting the largest in Africa and a growing middle class with a large number of drinking-age consumers, beer demand and intense competition amongst other driving factors; the Nigeria Beer Industry has recently evolved from a duopoly to an oligopoly with brewing multinationals battling for position in a market that has plenty of room for expansion. The industry has metamorphosed over the years from mere production of bottled drinks to a diversified industry which constitutes a large segment of the food and beverages sub-sector currently accounting for 35.9% of the growth in the industrial sector, which grew in 2014 by 6.41% as against 0.87% in 2013.

The principal activities of the breweries industry include the production, packaging and sales of alcoholic and malt beverages. Dominant companies include Heineken commanding a 71% share of the market through its subsidiary, Nigerian Breweries; Diageo with a 27% market share through its stake in Guinness Nigeria; while SABMiller “a South African brewery giant” has recently joined the fray with its acquisition of Pabod Breweries in 2008 and International Breweries in 2012; has shown strong growth. Others include low end gin manufacturing companies such as Casapreco and other indigenous manufacturers.
Alcohol consumption is a social activity in Nigeria, so 80% of the country’s alcohol sales are on trade. Beer is the most populous alcoholic beverage in the country, making up about 96% of alcohol sales. Beer importation has been banned to encourage the Nigerian domestic industry. In addition, Indigenous companies engaged in brewing hops are eligible to “pioneer” status, enabling them to a tax holiday of up to seven years.

Figures released by Heineken has shown that the Nigerian beer market is expected to record a compound annual growth rate of 5.6% between 2011 and 2020. Despite the strong long-term outlook, the industry is going through a tough period at present due to an increase in the cost of living, pressures from foreign exchange rates as well as distribution pressures stemming from security concerns. However, with the continuous expansion of the Nigerian middle class, it is estimated that a current installed capacity deficit of 53 million hectoliters highlights the potential market. In this report, growth drivers and associated limitations in the Nigeria breweries industry are analyzed, its long term growth outlook examined and critical investment opportunities in the industry expatiated.
THE NIGERIAN BREWERY INDUSTRY

The history of the Nigerian Beer industry dates back to the period prior to the Nigerian independence with the establishment of Nigerian Breweries Limited in 1946 as pioneer brewer in Nigeria. Beer makes up 96% of all alcohol sales in Nigeria and in the last 10 years beer consumption in Nigeria has experienced an average growth of 10% and is expected to achieve a compounded annual growth rate (CAGR) of 13 per cent in the next 10 years. This growth hinges on the country’s expanding population of 180M people, growing middle class income and huge consumer market concentrations. However, there has been a draw back in the recent performance of the industry due to higher cost of living, slowing discretionary income and insecurity challenges.

Of the total beer consumption in Nigeria, Lager beer takes 58% of the market share; Stout has 27% while 15% goes to Malt. In terms of consumption channels, 40% of Nigeria beer consumers drink in beer parlors, 28% through provisional store purchases, 13% via informal convenience spots, while the rest go through kiosks, restaurants and hotels and others.
Dominant Companies Struggle To Maintain Market Share

**Heineken**

*Heineken* controls over 70% of the country's brewery market. Heineken N.V Global has majority stake in *Nigeria Breweries, Consolidated Breweries* and *Champion Breweries Nigeria Plc* controlling 71% of the Nigerian beer market. The three companies operated independently in the Nigerian market until December 2014; when Heineken merged the operations of Nigeria Breweries and Consolidated Breweries. Following the merger, both entities now exists as Nigeria Breweries with a wider product portfolio in both the premium and value segment of the market. Whilst Nigeria Breweries dominates the market in the premium and mainstream segment of the beer market with brands like Gulder, Star lager and Heineken, Consolidated Breweries plays the same role in the lower end/Savings segment with cheaper and low income earner friendly brands like ‘33’ Export lager, Turbo King amongst others.

Champion Breweries Nigeria Plc. was fully integrated in 2013 via a transfer of 57% stake from Consolidated Breweries to Heineken through her wholly owned subsidiary, Raysum Nig and thrives mainly on brewing contracts along with its single beer brand ‘Champions Lager Beer’ predominant in the Southern part of the country. However, Nigeria Breweries and Champions breweries have their operations consolidated in the financial of Heineken global.
Nigeria Breweries audited financial statements for the year ended December 31, 2014 shows the company recorded lower sales volume during the period in comparison with the prior year which translated into weak net income performance during the period. Revenue declined by 0.8% YoY to N266bn from N268bn in 2013, (we estimated a 0.9% decline for FY 2014 in our Q3 2014 review), while net income declined by 1.3% between FY 2014 and FY 2013 (we estimated a 3.1% decline for FY 2014 in our Q3 2014 review). The stronger reduction in finance cost (22% YoY) was responsible for the disparity between our estimate PAT and the actual.

However, its recent Q1 2015 results shows the company recorded a 1.37% growth in revenue during the period against the same period of the prior year to N69.92bn. Similarly net income grew 0.45% to N10.11bn in Q1 2015 from N10.05bn in Q1 2014, this was on the back of a stronger reduction in Distribution, administrative and other expenses by 5.03% YoY.

**Guinness**

*Guinness* controls 27% of the Nigerian market; it is a subsidiary of the *Diageo Group*. The company produces the most popular stout (Guinness extra stout). The beer maker started operations in Nigeria in 1963, with Lagos as its first location outside the British Isle to brew the Guinness brand. Currently, Nigeria is the largest Guinness Stout Market in the world by Net Sales Value. Guinness has a market share of 27% in Nigeria.
The financial results of Guinness published by Nigeria Stock Exchange showed that the company realized sales revenue of N109.202 billion as at the year-end June 30, 2014 as against N122.463 billion of the preceding year. The amount represented a decrease of 10.83 per cent. Operating profit dropped by 22.98 per cent from N20.933 billion in 2013 to N16.123 billion that year. While profit before tax (PBT) also dropped from N17.008 billion in 2013 to N11.681 billion, plummeting by 31.32 per cent, profit after tax (PAT) stood at N9.573 billion having dropped by 19.30 per cent from N11.863 billion of the previous year. Further analysis revealed that PBT decline was greater than sales due to a 13 per cent YoY rise in interest expense to N4.4 billion, offsetting a 122 basis points YoY gross margin expansion.

However, the company showed signs of recovery as seen in its recent financial results recorded in its Q3 2015 figures. The company recorded a 9% increase in turnover to N84.75bn in Q3 2015 from N78.02bn in the same period in the prior year driven mainly by its ground breaking brand “Orijin bitters”. Unfortunately, pressures from increasing cost of sales, finance costs, admin and distribution expenses led to a 12% decline in net income from N5.94bn in Q3 2014 to N5.22bn in Q3 2015.

**SABMiller**

The latest amongst the global bigwigs in Nigeria is SABM through its stake in Pabod Breweries Ltd (Port Harcourt) in 2008. In 2012, following the combination of the Castel and SABMiller businesses in Nigeria and Angola, SABM took operational management of the Castel Nigerian business, International Breweries (INTBREW) on the 1st of January
2012. Other acquisitions include, Intafact Beverages Limited (Onitsha), Voltic Nigeria Ltd (Lagos). SABM is the largest beer producer in Africa and 2nd largest brewer in the world with more than 200 beer brands and some 70,000 employees in over 75 countries. It must be said that with recent investment of over US$100 million in Nigeria, SABM is intensifying its penetration into the Nigerian market through strategic regional approach, the most popular brands currently gaining a lot of patronage in the country include the Trophy and Hero brands with markets in the South Western and Eastern parts of Nigeria respectively.

SABMiller saw double-digit lager volume growth in Nigeria in full-year 2014, underpinned by 23% volume growth in its Trophy lager brand, while Hero lager volumes more than doubled as SABMiller increased capacity at its Onitsha brewery. Non-alcoholic malt beverage volumes also continued to grow strongly. This was reflected in SABMiller’s strong earnings for 2014 compared with Nigeria Breweries and Guinness. International Breweries saw its profit surge by 32.46 per cent year on year, for the three-month period ended June 2014.

![Nigerian Beer Market Share](chart.png)

*Nigerian Beer Market Share
Source: GTI Research*
Expanding Population; Expanding Markets

One of the most important and underappreciated changes in Nigeria is the growing size and strength of its consuming class. The success of companies in the brewery industry hinge largely on the existence of large markets, nonetheless, Nigeria’s rapidly expanding population provides a perfect platform for companies in this industry to flourish. However, despite the huge population size of about 182.8 million as at 2015, Nigeria’s brewery space still remains under exploited.

Nigeria’s Population (2050F, million)

Source: UN Population Database/GTI Research
Urbanization; Increasing Market Concentration

The number of individuals shifting from rural areas to urban centers has risen exponentially over the past decade leading to huge population concentrations in certain areas of the country. It should be noted that companies in the brewery industry require a steady flow of consumers purchasing their products on a daily basis so they have to operate in a local market with a large enough size. According to a recent report by KPMG, Lagos was the 20th largest agglomerate in the world and it is estimated that by 2025 it will move up to the 11th position globally, we expect this to impact positively on beer consumption and demand.

*Global Urbanization by Country*
Increasing Drinking-Age Consumers

With increasing middle class and expanding urbanization rates, the country has had a boom in its youthful population as the country has a median age of 19 years with 55% of the population is within the age bracket of 15 to 65 years accounting for over 80% of alcohol consumption. The persistence of this growth trend in this age group is expected to drive beer consumption higher.

![Beer Consumption per Capita (2020F, litre)](image)

*Beer consumption per Capita (2020F, litres)*
*Source: GTI Research*
Emerging Middle Class; Increasing Spending Power

Nigeria’s emerging middle class paints a picture of an increasingly normal society driven by consumers who are living lives not too dissimilar to those of Western Europeans, accounting for 23% of the population. There has been a significant expansion in middle income earners most dramatically in those whose income have reached $6,000-$7000. In addition, it has been estimated that middle income households would reach 12 million in 2030 with sufficient income to meet all basic necessities as well as health and education services according to a report by Standard Bank South Africa.
Growing Marketing and Distribution Efforts

Marketing and distribution efforts among brewers is another key growth factor for the industry. Top Management of the two major players (Nigeria Breweries and Guinness) continue to leverage on strategic means to market dominance with huge expenditure on marketing and distributive activities to stay dominant, visible and appealing to the huge youthful population.

Acquisition and Expansion:

Industry consolidation is a recurring affair and a critical success factor in the global brewing sector. Ability to expand and possibly acquire less dominant players is a major driving force in increasing market share and maintaining dominance. Over the years, Nigeria Breweries has leveraged on this phenomenon to maintain its market share in the Nigerian beer market.
ASSOCIATED LIMITATIONS

Naira Devaluation

The devaluation of the local currency had a disheartening impact on every sector within the Nigerian economy, driving companies’ cost of production to all-time highs as the cost of imported raw materials sky rocketed since the country is mainly import dependent and mono-economic; entirely dependent on earnings from oil exports. However, as the country gravitates towards economic diversification, we expect the country’s foreign exchange earnings to increase considerably, generating a suitable dollar buffer for the local currency.

Rising Inflation; Declining Disposable Income

Rising price inflation rates remains a critical factor in the Nigeria breweries industry as its uptrend constrains consumer spending; resulting from the escalation in the prices of goods and services. For
instance, if the prices of goods increases due to economic headwinds and consumer’s income remains the same, then the consumer can afford less goods. This phenomenon can affect topline as well as bottom-line growth of companies as consumers prioritize wants and necessities to suit their present disposable income, while cost of production as well as operating costs sky rocket. However, as the country recovers from the revenue shock as oil prices stabilizes, coupled with the change in governance whose priorities are geared toward economic diversification; we estimate considerable decline and stabilization in inflation rates in subsequent years.

![Nigerian Inflation Trend (2020F, %)](chart)

*Source: CBN, GTI Research*

**Non-Alcoholic Beverages**

Apart from the lesser spending impact, increasing competition from non-alcoholic beverages as well as other alcoholic beverages such as the low end gin products (Alomo bitters) continue to challenge the market share of the beer segment of the Nigeria beverage industry.
Security Risks in the Northern States

Insurgency ravaging huge swathes of Northern Nigeria due to disrupted distribution channels to these areas, led to an increase in cost of living and discouraged social gatherings in bars and consequently to a striking shortfall in beer demand.

Other limitations include increasing health consciousness amongst the Nigerian middle class, religious beliefs and Sharia laws in some part of the Northern region.
Emerging Low End Gin Market

The emerging low end gin market presents a juicy opportunity for companies to leverage on. We are of the opinion that the increasing difficulty in growing revenue currently being experienced especially by companies in the Nigeria brewery space may not only be on account of the shrink in disposable income, but a shift in demand to these brand of products as they are offered at considerably lower prices. Our opinion is that companies need to develop a strategy to capture this growth segment of the market.

As Consumer Tastes Shift Towards Palatability

Consumer preferences, in particular those of the younger ones, seem to move towards more palatable products. In general, beer does not necessarily match with these needs because of its bitter taste. Therefore, breweries have a hard time attracting young consumers. However, to counterbalance this movement, we have seen beer brands introduce more accessible and palatable variants by, for example, adding flavors to their products. These flavors reduce the bitter taste of hop and make the beer more appealing for a younger audience. A typical example is Guinness’ ground breaking brand “orijin” whose palatability has driven its demand, as the brand is almost taking over the value brand segment of the Nigerian beer market.
Mixing beer with soft drinks is another way to make the product more palatable. Consumers have been doing this at home for ages already, but nowadays international brands produce these beer-mixes as ready-to-drink products, also called radlers or shandies. This concept originally comes from Germany, where people usually mix drinks, but nowadays we see this trend in other countries and parts of the world as well.

Hereby a new beer segment is created. International brands who applied this trend include Coors Light, with its ice tea flavoured beer, and Amstel and Foster’s who both recently launched lemon flavoured radlers. In line with this, Bud Light introduced two beer cocktails: Lime-A-Rita and Straw-Ber-Rita. Our opinion that Nigerian companies need to develop a strategies to explore this potential growth segment of the market.

As Consumers Become More Health Conscious

People are getting more and more conscious of their health and are therefore adjusting their consumption patterns. However, a brand that could strike a balance between reduced alcohol, reduced calorie content and palatability would be an answer to this trend as well as create a new beer segment. International brands have leveraged on this trend producing light beers such as Bud light, Miller Lite and Amstel Lite, we encourage Nigerian brewers to explore this trend.
Gender Targeted Products

Another possibility to achieve market growth is to look for potential new consumer groups. We already see this happening with international brands that no longer just focus on men, but also start targeting female drinkers. For instance, Carlsberg and Molson Coors launched respectively Copenhagen and Animée beer; both designed to attract stylish and modern consumers, especially women. Another way in which brands could try to appeal to women is by introducing alternative, non-beer products. Though, brands need to be careful with this way of targeting women, because there are definitely women who are not looking for female-specific drinks and designs. Among them, brand initiatives like this may lead to misunderstanding and resistance. Therefore, it is important that brands carefully determine their strategy to reach these potential consumers.
Summary

The growth potentials in the Nigeria brewery industry cannot be over emphasized. As the Nigerian economy gravitates towards economic diversification, the sector remains very well positioned to benefit greatly as the country’s economic emphasis is redirected strongly towards agriculture, manufacturing and industrialization. With an expanding market concentration and a largely youthful population, the market is expected to record a compound annual growth rate of 5.6% between 2011 and 2020.

Despite the strong long-term outlook, the industry is going through a tough period at present due to an increase in the cost of living, pressures from foreign exchange rates, decreasing disposable income as well as distribution pressures stemming from security concerns. However, with the continuous expansion of the Nigerian middle class we estimate a current installed capacity deficit of 53 million hectoliters to service the potential market.

We recommend that companies in this sector take innovative steps to effectively diversify production lines through detailed analysis of target markets and consequently produce goods that are well in line with consumer tastes. This will not only help deepen market penetration but will make sure that there remains enough reason to keep raising the glasses and toast ‘Let There Be beer!’
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