

JULY 2022

CORPORATE DIGEST

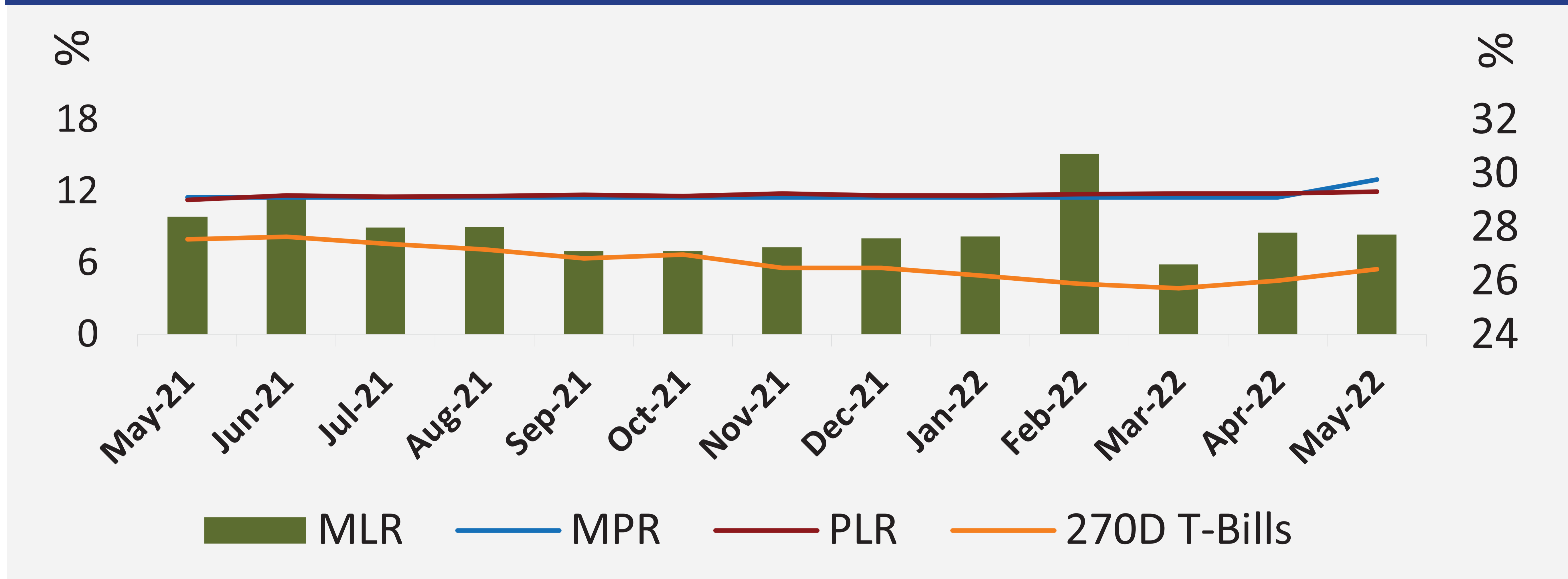
The Nigerian Food & Beverage Industry:
Pivotal for Growth

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Macroeconomic Updates

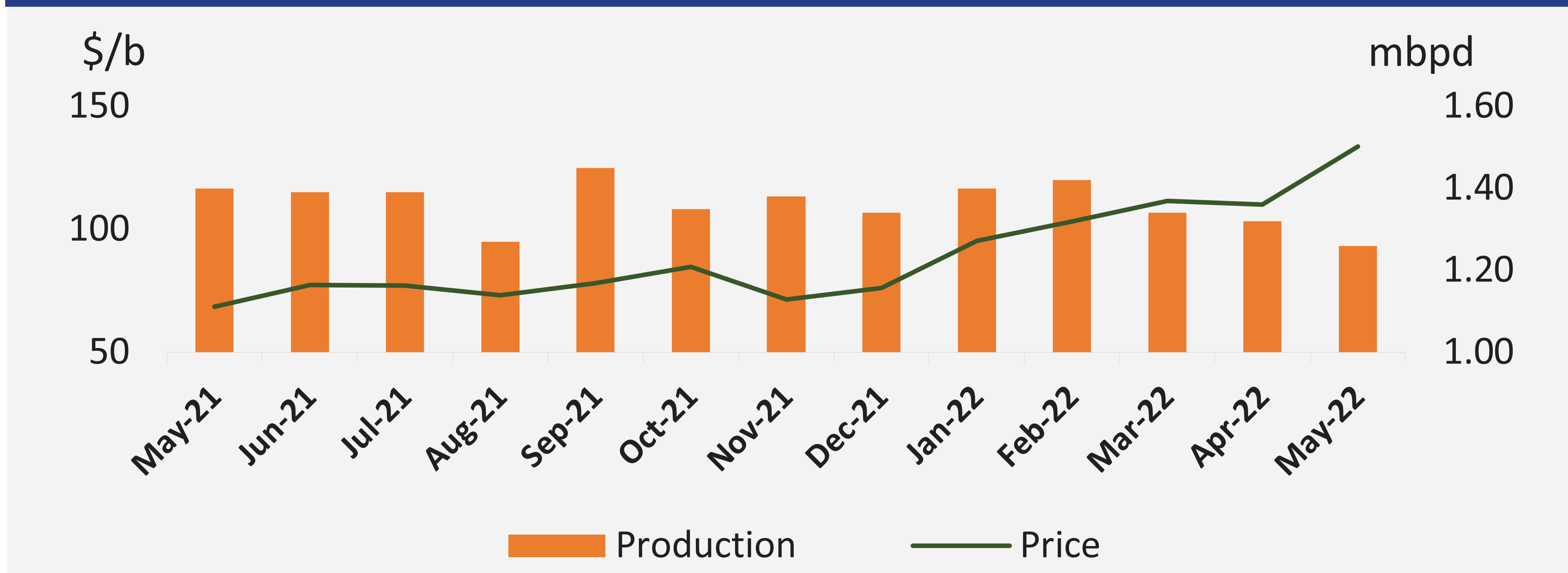
Lending & Investment Rate



Sources: CBN

- The Monetary Policy Committee (MPC) remained unchanged at 13% after it was increased from 11.5% in May 2022 to curb soaring prices.
- The Prime Lending Rate (PLR) rose slightly to 11.96% in May from 11.83% posted in the previous month. On the other hand, Maximum Lending Rate (MLR) declined slightly to 27.73% from 27.79% for the reference period.
- The 270-Day Treasury Bills (T-Bills) gained 0.4% to settle at 5.89% at the end of June from 5.49% posted in the preceding month.

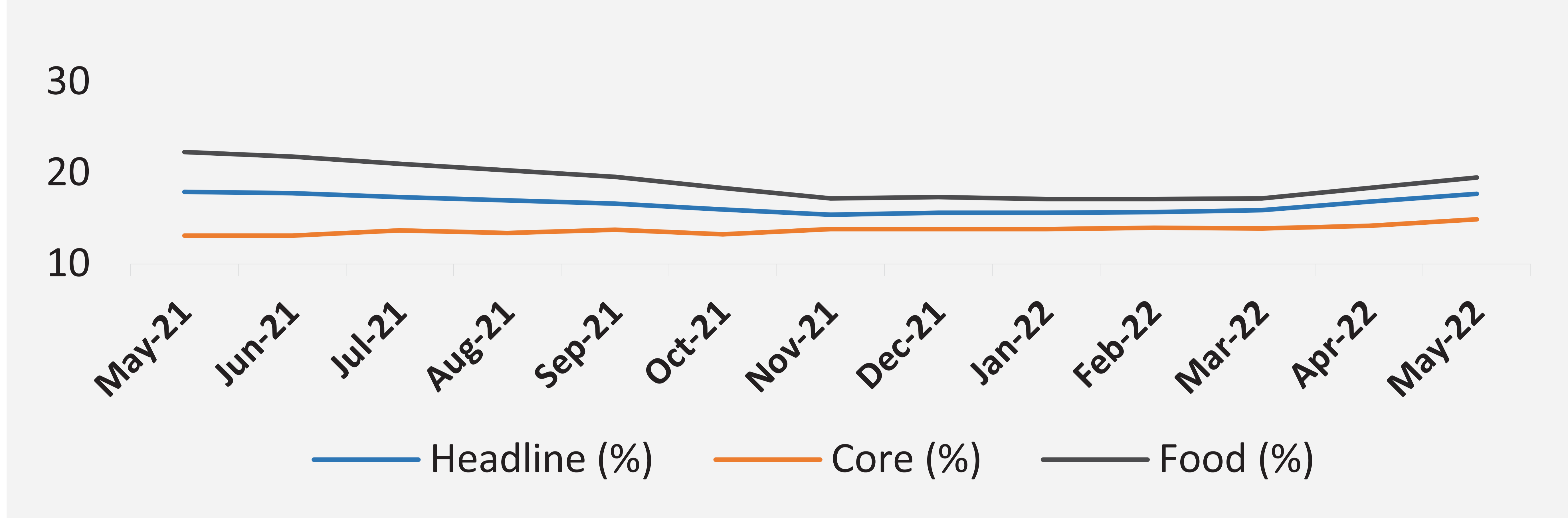
Bonny Light Crude Oil



Sources: NBS

- Growth in oil price dropped momentum as a 2.89% decline was recorded at the close of June 2022.
- Oil price for the month of June dropped to \$129.87/b from \$133.73/b recorded in the preceding month.
- This was largely due to investors' fear that aggressive monetary tightening in key economies aimed at curbing soaring inflation could lead to a global recession and dampen oil demand.
- Nigeria pumped 1.26 million barrel per day (mbpd) in May 2022, lower than 1.32mbpd pumped in the previous month.

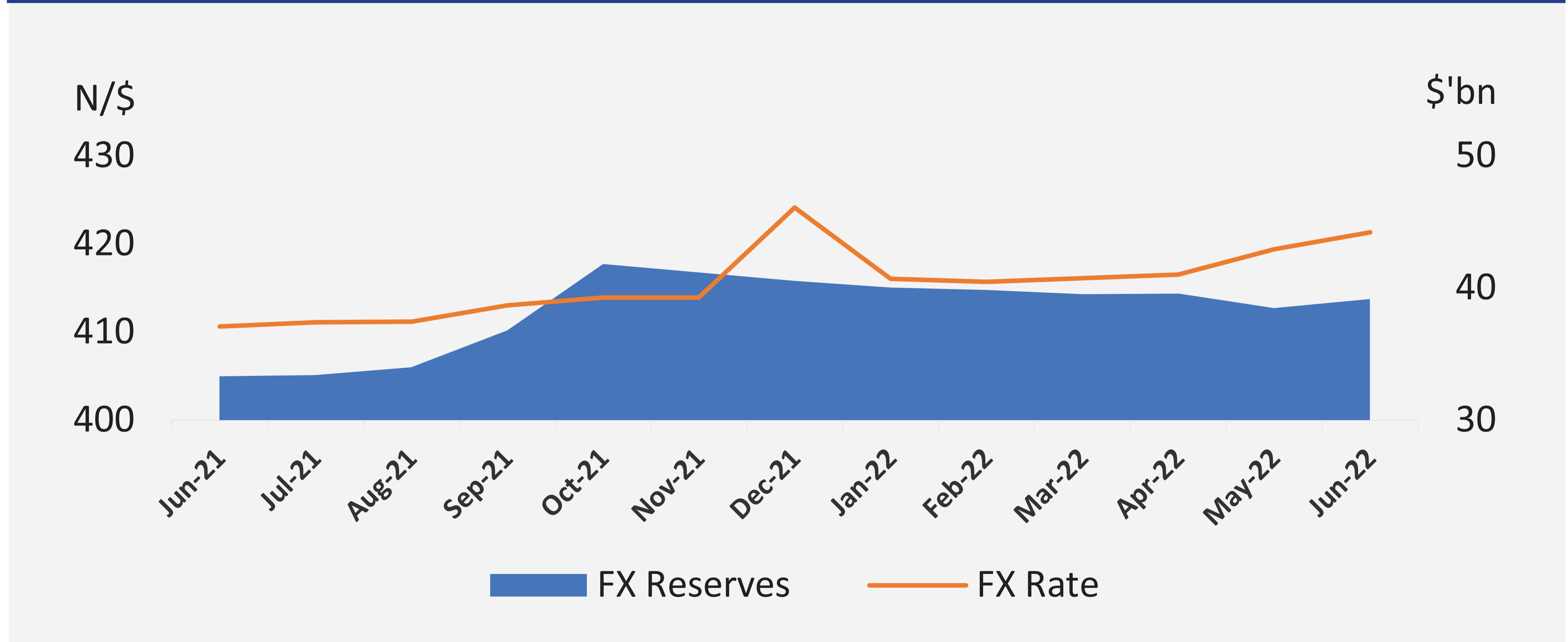
Inflation Rate (%)



Sources: OPEC

- The ongoing Russia-Ukraine war has driven global inflation high as many economies grappled with rising commodity prices especially food and energy prices.
- Headline inflation rate rose to 17.71% in May 2022 from 16.82% posted in the preceding month. This exceeds the CBN target range of 6%-9%
- Food and core inflation rate exhibited similar trend rising to 19.5% and 14.9% in May from 18.37% and 14.18% posted in the preceding month.
- Rising inflation erodes purchasing ability thus impacting business profit

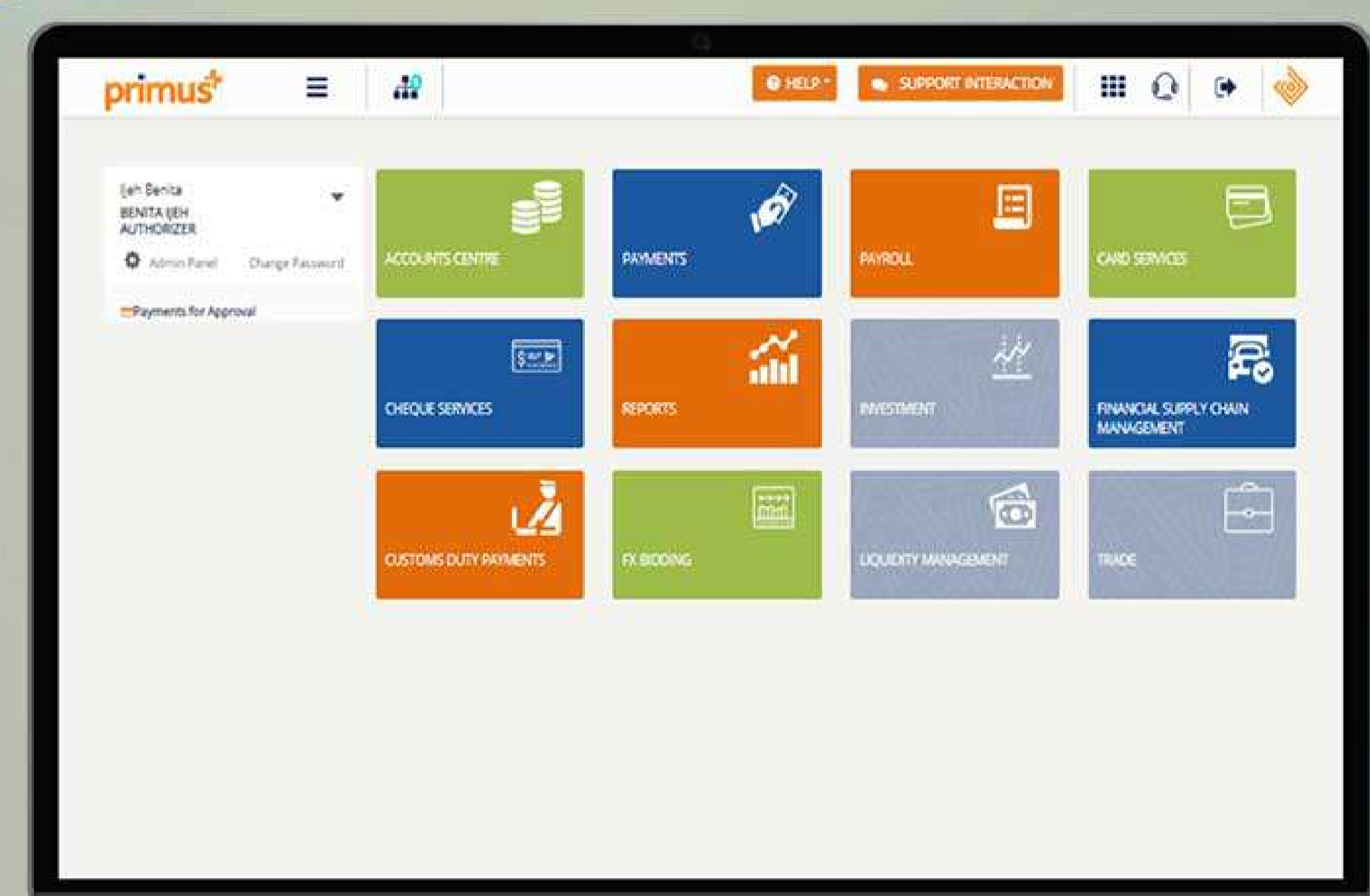
FX Reserves, FX Rate



Sources: FMDQ

- Accretion to the reserves picked up pace by \$0.68 billion to settle at \$39.16 billion in June 2022 compared to \$38.48 billion posted in the previous month.
- The NAFEX rate depreciated by ₦1.91 to close at ₦421.29/\$ in June 2022 compared to ₦419.38/\$ posted in the previous month.
- The growing demand for the greenback continue to outweigh the supply of the same due to insufficient forex inflow. Hence, the Naira remains under pressure

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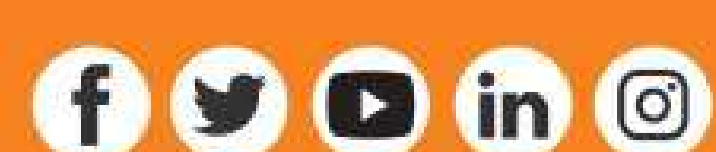
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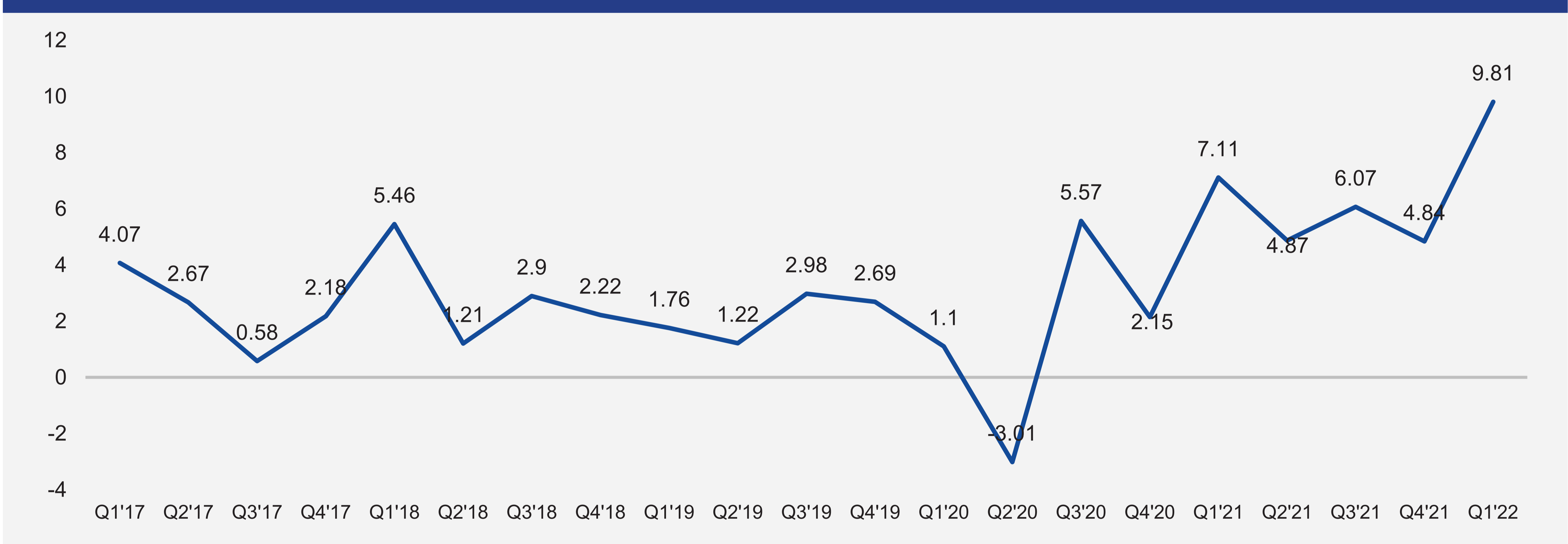
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Industry Overview

- ◆ Nigeria is the most populous country in Africa with the median age of 18.1 years, which generally reflects a young population and provides a large market base for the Nigerian Food & Beverage Industry.
- ◆ The industry is highly saturated with numerous players and competition is very intense,. Thus, it's difficult for new entrants to survive in the Industry, sometimes leading to early withdrawals.
- ◆ Key operators in the Food & Beverage Industry have gradually resorted to looking inwards with less reliance on imported raw materials. Operators now engage in backward integration to achieve self-sufficiency with some of the raw materials used in production, thereby limiting exposure to the volatility of input prices and giving operators a competitive edge.
- ◆ The Industry boasts of a strong distribution network as Food & Beverage products are readily available in open-air markets, supermarkets, kiosks. Also, there has been an increased shift to e-commerce as consumers find it convenient to shop online.
- ◆ The performance of the Industry is mainly driven by the growth in the urban population and a rise in the number of middle-income consumers who continue to embrace modern Western cultural norms and consumption habits.
- ◆ Brand loyalty remains shaky due to higher price sensitivity while product availability is also key as value consumers are frequent buyers who seldom stock in large quantities.

Real GDP Growth (%) for the Nigerian Food, Beverage & Tobacco Industry

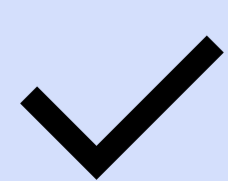


Sources: NBS

Resilient

**Sector
Characteristics***

Interest Rate Sensitive



N8.61trn

**Nominal GDP
Size****

Exchange Rate Sensitive



4.96%

**Contribution
to GDP****

Employment Sensitive



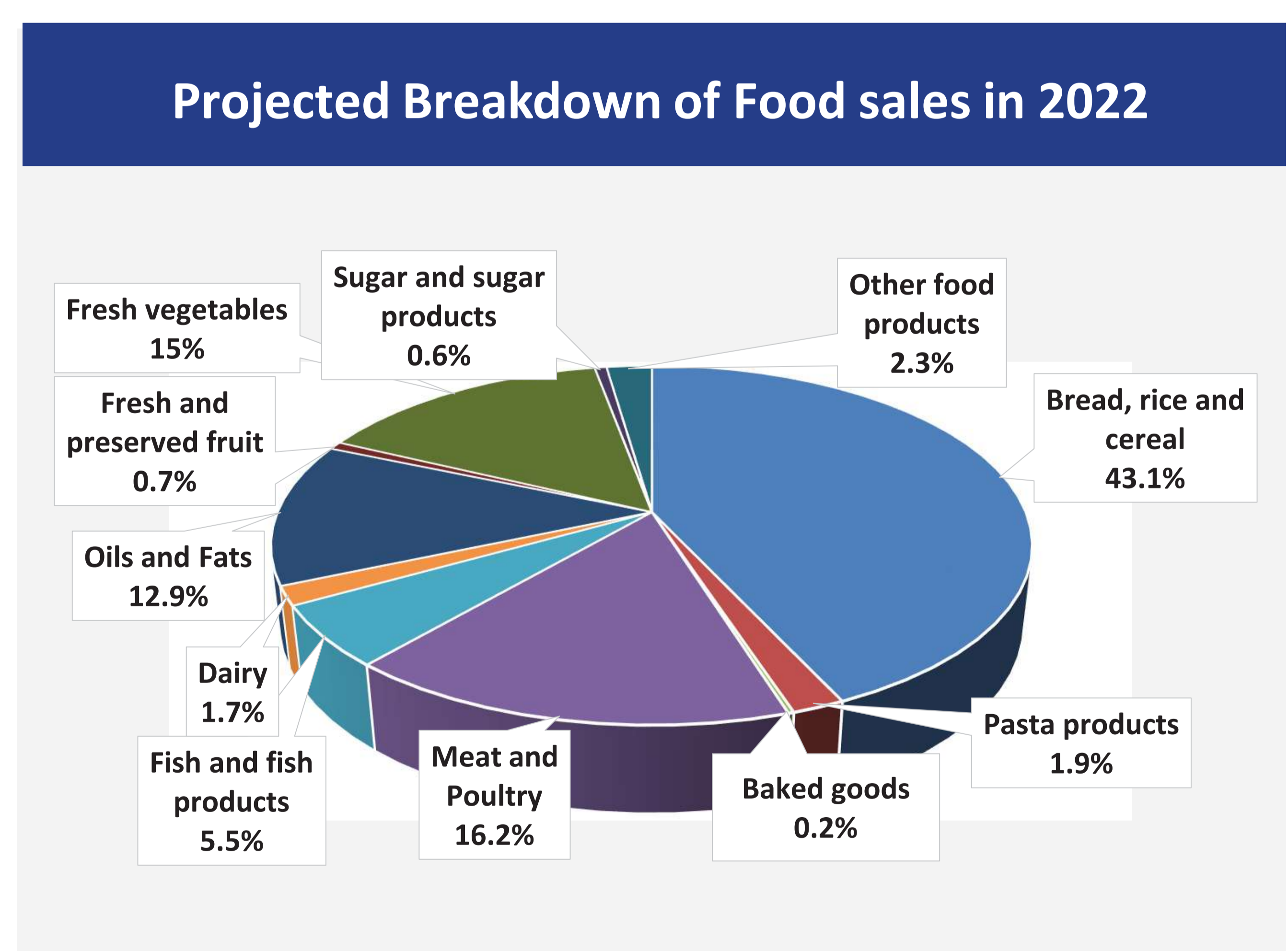
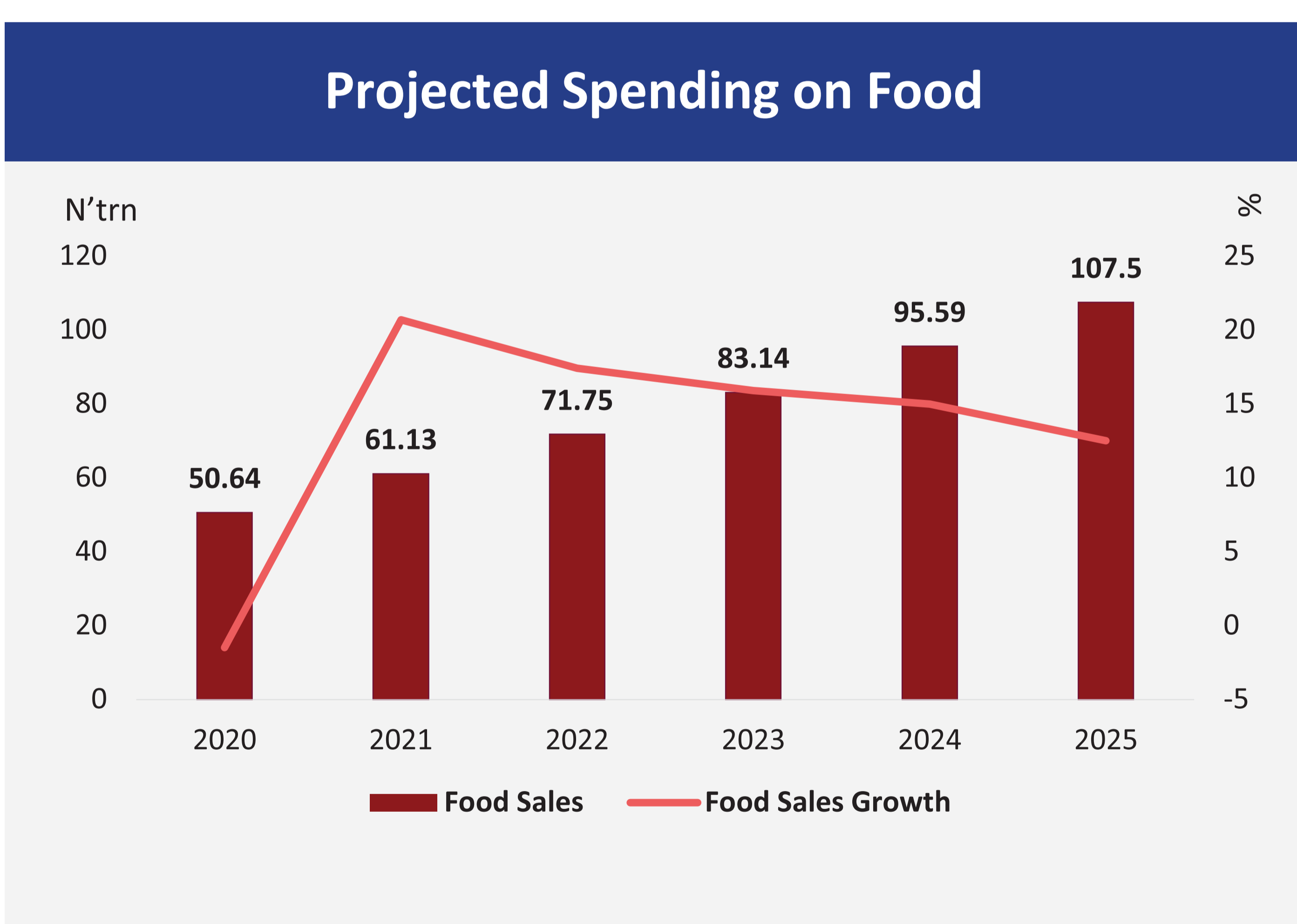
* - The Food, Beverage & Tobacco Industry has experienced more than 2 consecutive quarterly positive growth rates.

** - Data as at full year 2021

SWOT Analysis

S	W	O	T
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Nigeria's large population creates the largest consumer market in Africa. Nigeria produces several 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. 	<ul style="list-style-type: none"> High food inflation will negatively impact industry real growth The retail sector is relatively underdeveloped with over 80% of shopping still carried out via the old format of corner shops, kiosks and local markets High operating costs and weak internal trade systems have inhibited foreign retailers from entering the retail space. 	<ul style="list-style-type: none"> The Covid-19 pandemic has resulted in the adoption of e-Commerce services and this trend is expected to continue The African Continental Free Trade Agreement (AfCFTA) will bring greater market access to neighbouring countries. Investment into the highly underdeveloped mass grocery retail industry is likely to attract a larger consumer base. 	<ul style="list-style-type: none"> High inflation is weighing consumer purchasing power and this could impact food and drink spending growth. Ongoing security concerns in northern regions would increase the cost of raw materials needed for production. A precarious economic environment may limit growth in the formal food retail sector

Nigerian Food Industry Overview & Outlook

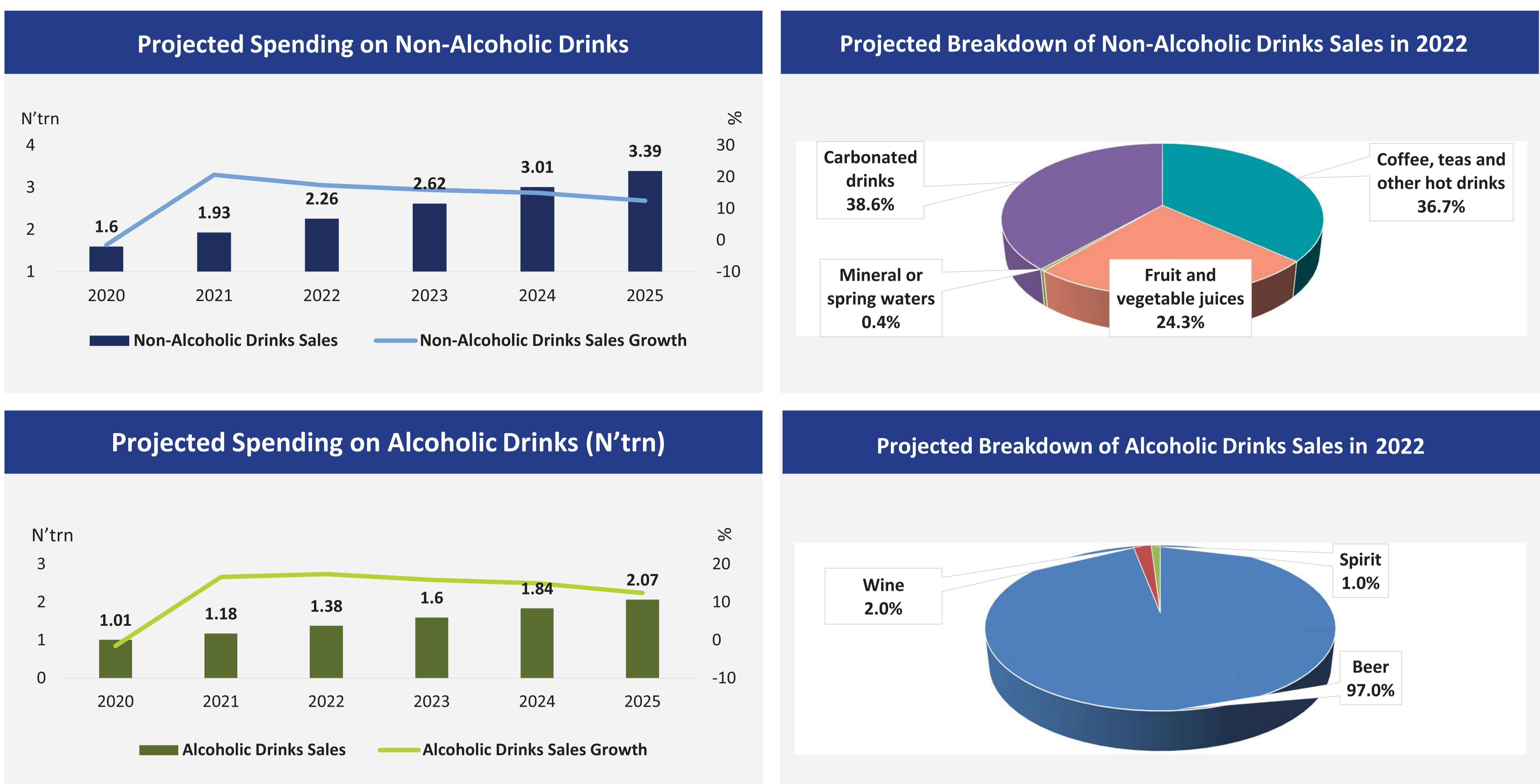


Sources: Fitch

- Food spending is forecast to grow by an average of 15.2% year-on-year over the forecast period (2022-2025). This will take total food spending from ₦71.75 trillion in 2022 to ₦107.5 trillion in 2025. The growth in 2022 food spending will largely depend on the rising inflation rate.
- Due to rising food inflation, some food categories will outperform while others will decline. Staple foods are expected to remain resilient while non-essential food items will show a tepid performance
- Spending on bread, rice and cereals (43.1%) will account for the largest food spending in 2022 closely followed by meat and poultry (16.2%) and fresh vegetables (15.0%).

- 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 the forecast horizon as cash-strapped consumers reduce non-essential expenditure
- In the meat and poultry segment, poultry, ham and bacon, will be the fastest-growing categories
- However, challenges surrounding infrastructure, labour and business environment pose a downside risk to projections as they might limit the efforts to boost local production of processed and value-added foods.

Nigerian Drinks Industry Overview & Outlook



Sources: Fitch

- Non-alcoholic drinks spending is projected to grow by an average annual growth rate of 14.6% y-o-y. This will take non-alcoholic drinks spending from ₦2.26 trillion in 2022 to ₦3.39 trillion in 2025 mainly driven by rising inflation.
- Carbonated drinks will dominate non-alcoholic drink spending at the end of 2022, accounting for 38.6% of total non-alcoholic drinks spending closely followed by coffee, tea and other hot drinks (36.7%) and fruit and vegetable juices (39.5%).
- Intensified competition, youthful demographics and low-income levels provide favorable conditions for carbonated drink popularity and growth in the coming years.
- Alcoholic drinks spending is forecast to accelerate in 2022, as spending will reach ₦1.38 trillion at the end of 2022 from ₦1.18 trillion posted in the preceding year, reflecting a growth of 17.4%.
- Beer will remain the alcoholic beverage choice in Nigeria and the category is set to show healthy growth in consumption. Growth will be driven by the value beer segment, particularly in the near term, as disposable incomes remain under pressure.
- The beer industry has a strong multinational presence and is one of the few African beer markets to have attracted more than two major multinational brewers.

Business advisory for players in the Food & Beverage Industry

- The Nigerian Food & Beverage Industry is a price-sensitive market. Hence, the products must be priced competitively to retain and grow market share. Also, manufacturers in the Industry should ensure continuous product quality review.
- Food & drink manufacturers should collaborate with local raw material suppliers to build a relatively stable and sustainable supply that is not susceptible to external shocks. In addition to lowering Dollar demand, localizing inputs has a positive rippling impact on the overall economy.
- Cost should be kept under tight control. Reduce inventory costs but do not compromise on quality of inventory. Find cheaper options for managing inventory costs either by reducing the quantity of the inventory to what is needed per time, find a cheaper source of transporting inventories or source inventory from cheaper source.
- Food & drink manufacturers should explore producing goods and services in smaller and more affordable units, while maintaining product quality. Even firms that have successfully done this may have to further split the products into smaller units due to shrinking disposable income. Otherwise, corporates run the risk of losing customers to rivals or to substitute products.
- Statista (a German research firm), revealed that as at April 2022, there were 5 billion active internet users in the world, which is 63% of the global population and about 93% of this total are active on social media. Businesses should explore the online stage and engage catchy advertisement. This will promote the visibility of the business, a wider customer base amongst other benefits.

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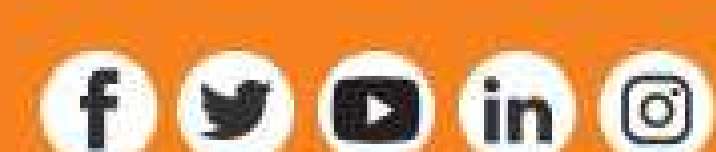
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