Opportunities Remain Wide Open for African Poultry Investments

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Capturing the African Investment Opportunity

The Sub-Saharan African poultry and egg industries have developed fast over the last decade, and this is increasingly attracting interest from local and international investors. Rabobank identified this opportunity in its 2017 report "Time for Africa," in which we highlighted the key drivers for investments in African poultry. We think opportunities for investors remain wide open. In this new report, we provide an updated view that also includes an egg industry perspective.

**Time for Africa: The 2016-2019 investment story**

Following a short slowdown caused by economic volatility in mineral- and oil-dependent countries in 2016, we have seen an acceleration of poultry investments in Africa since 2017, with Eastern Africa and parts of Western Africa, like Nigeria and Ghana, attracting greater interest from local and international investors. Several international companies have developed their positions in Africa, including: modern retail and restaurant chains continuing their expansion; animal nutrition companies strengthening their positions throughout Africa; breeding companies establishing a more pan-African supply system; and equipment suppliers building distribution networks. Production is still dominated by local companies, and internationalization is managed by a few large African investors. But early international investors are taking positions to leverage the future growth path of Africa – one of the world’s largest pending growth markets (around 15% of the upcoming 20-year growth in global poultry).

**The opportunities remain wide open**

The middle class in Africa is expected to continue growing, as the population doubles and more people move to big cities. These core fundamentals, together with the untapped potential of local feed grain production, offer an attractive investment opportunity.

This will all lead to ongoing market growth and especially toward more products being sold via modern distributors and online platforms. Modernization at all stages of the value chain will continue, and such an environment will create an increasingly interesting platform for international investors. Investors need to realize that conditions in Africa can be challenging and require a very strategic investment assessment that takes all major factors (i.e. business climate, market growth, supply, and infrastructure) into consideration. If this is done well, the potential upside is big.
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Sub-Saharan Poultry and Egg Market Outlook
The African Poultry and Egg Investment Opportunity
Strong macro fundamentals are leading to an attractive investment story in a USD 25 billion industry

**Strong fundamentals**

- Growing urban population
- Expanding middle class
- Shifting from a vegetable-based to a protein-based consumption pattern
- Expanding retail, QSR, and home delivery
- Underdeveloped value chains

**Sizeable industry, but spread over many countries**

- Poultry meat industry: USD 16 billion value with an expected annual growth of 8% to 10% per year
- Egg industry: USD 9 billion value with an expected annual growth of 7% to 9% per year

**Attractive investment story**

- Expansion expected for the next decade in this fast-growing market:
  - +1.6 million metric tons of eggs
  - +3.6 million metric tons of poultry
- More value creation due to the changing buying habits of the rising middle class
- Value chain investment impact:
  - Poultry farming
  - Feed mills
  - Breeding
  - Processing
  - Grains & oilseeds
  - Farm inputs

**Pioneering environment with a volatile environment**

Source: Rabobank 2020
Africa’s Rising Animal Protein Market
Poultry and eggs are the winning proteins, with demand for feed and genetics expected to rise sharply.

**African animal protein market outlook: poultry and eggs drive growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Seafood</th>
<th>Poultry</th>
<th>Beef</th>
<th>Eggs</th>
<th>Sheep</th>
<th>Pork</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>10,000</td>
<td>20,000</td>
<td>1,000</td>
<td>1,000</td>
<td>5,000</td>
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<td>2007</td>
<td>15,000</td>
<td>30,000</td>
<td>1,500</td>
<td>1,500</td>
<td>7,500</td>
<td>1,500</td>
</tr>
<tr>
<td>2017</td>
<td>20,000</td>
<td>40,000</td>
<td>2,000</td>
<td>2,000</td>
<td>10,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2027</td>
<td>25,000</td>
<td>50,000</td>
<td>2,500</td>
<td>2,500</td>
<td>12,500</td>
<td>2,500</td>
</tr>
</tbody>
</table>

**CAGR**
- Seafood: +2.2%
- Poultry: +3.0%
- Beef: +2.1%
- Eggs: +4.9%

**Why are poultry and eggs best positioned to supply Africa’s rising protein demand?**

- **Cheapest animal protein**
- **Taste preference**
- **Backyard growth opportunity with dual-purpose chickens**
- **Contract model offers constant cash flow for starting farmers**

**Outlook: More value creation above volume growth**

- More modern breeds
- More compound feed
- More retail sales
- More value added

**Predicted global poultry demand growth 2017-2027f**

- Africa: 15% of global growth

Source: FAO, OECD, local statistics, Rabobank 2020
Macro Fundamentals in Sub-Saharan Africa Are Attractive
15 consecutive years of growth above the global average has created a bigger, urban middle class

Real GDP change 2018, 2019f, and 2020f

On average, Africa’s economies have been recovering since the slowdown of 2016/17. The fastest growth is in Western and Eastern Africa. Oil- and mineral-dependent countries are still affected by commodity price volatility.

Sub-Saharan Africa’s population to double
All Sub-Saharan African countries to grow 2% to 3% per year

African income distribution: Africa’s rising middle class

Source: FAO, IMF Economic Outlook October, Rabobank 2020
Investor’s perspective on how to supply Africa’s rising protein demand

- Shift from global to more local supply
- Eastern Africa and landlocked Africa to be locally supplied
- Fast growth in markets
- Strong local footprint
- Food sector a greater priority in many African markets
- Western Africa and Southern Africa more exposed to trade
- Opportunities for trade hubs
- Breeding supply to benefit from the move to more local production
- Potential for synergy between trade and local supply

African supply: from global to local?
Western Africa and the southern coast of Africa are traditionally highly exposed to trade. Although trade flows are expected to stay, there will be a rising push toward local production to stimulate local development and employment.
Investing in local poultry and egg production will also help to develop stronger input industries like grains & oilseeds, farm inputs (e.g. equipment and feed additives), genetics (e.g. seeds and breeding), and animal and plant healthcare.

Source: USDA, FAO, local statistics, Rabobank 2020
*Nigerian imports estimated via Benin informal trade
**adjusted for informal trade to Nigeria
Poultry Production Will Grow the Most in Eastern and Western Africa

South Africa to remain the biggest industry, but its share of total African production will fall further in the next decade

**South Africa’s chicken supply: more import focused**

**Sub-Saharan African poultry production: small but fast-growing industries**

**Industry & government poultry masterplan**
1. Increase chicken consumption in the next years
2. Ensure local production makes up a larger part of domestic consumption
3. Expand the industry by increasing capacity at all stages of the value chain. Increase poultry meat by 10% within 3 years, add 300,000 metric tons of feed (so increase corn and soy demand) and create more opportunities for contract farmers
4. Focus on exports; government and industry to revamp certification for import markets
5. Increase participation, (co-)ownership and employment in the value chain for black South Africans

**Share of Sub-Saharan market growth by African region**

- **Eggs:** 59%
- **Poultry:** 61%

**Production growth CAGR 2017-2027**

<table>
<thead>
<tr>
<th>Country</th>
<th>CAGR 2017-2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td>&gt;6%</td>
</tr>
<tr>
<td>Zambia</td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
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<tr>
<td>Senegal</td>
<td></td>
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<tr>
<td>Angola</td>
<td></td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td></td>
</tr>
</tbody>
</table>

- **Fast growth CAGR 3% to 5%**
  - Cameroon
  - Uganda
  - Ghana

- **Moderate growth CAGR 1% to 3%**
  - Madagascar
  - Zimbabwe

**Source:** SAPA, FAO, local statistics, Rabobank 2020
A perspective on Africa’s egg industry

Africa’s egg industry is growing by 3.9% per year. Nigeria is the biggest market in Sub-Saharan Africa, with an ongoing growth of 3% to 5% predicted for the period 2017-2027f, making eggs the preferred protein in Nigeria.

The South African egg industry has also seen solid growth over the last year, but it was hit by avian influenza (AI) in 2017, which killed more than 10% of the laying flock in South Africa.

In other regions of Sub-Saharan Africa, markets are recovering from a slowdown due to the economic volatility of the last three years. Eastern African markets like Ethiopia, Tanzania, and Uganda especially have shown solid growth, although disease outbreaks have at times impacted trade between regions, like Uganda-Kenya trade recently.

The ongoing expansion of the Sub-Saharan African egg industry will increasingly challenge current supply chains. Imported products from Europe and South America have been challenged by exchange rate volatility. Investors are increasingly looking into developing local breeding value chains with PS and GPS farms to establish a regional supply chain with a more stable supply of genetics and less dependence on trade.
Why Invest in African Poultry?
The Seven Key Drivers for Investments in Sub-Saharan Africa

A large and increasing share of global growth will be in Africa, and this will be higher-value growth, due to improved fundamentals.

Source: FAO, USDA and local statistics, Rabobank 2020
Identifying Markets and Investment Opportunities in Africa
Detailed mapping of the business environment is necessary to tackle the risks of investing in Africa

Source: Rabobank 2020
Where to Invest in Africa?
Identifying the Most Attractive Markets for Investment – Business Climate

Significant differences in the business climates and local support programs for agriculture in Africa

Countries with a poultry development strategy

**Zambia**
Plan to develop agriculture since the 1980s:
- Investment incentives
- Import ban
- Fast growth in soybean production and crushing
- Animal protein industry is one of the most modern in Sub-Saharan Africa

- Very successful

**Ethiopia**
Plan to double production in the next few years
- Investment incentives
- Fast-growing market environment
- Limited FX for investments

- Challenging to find investors

**Rwanda**
Ambition to become a leading F&A supplier in the region
- Poultry is an important part of the F&A industry
- Government aims to push industry development via incentives
- NGO funding is an important part of the economy
- Being a relatively small, landlocked country restricts investments

- On track

Source: World Bank 2018
Source: Rabobank analysis 2020
Identifying the Most Attractive Markets for Investment – GDP Levels

Income levels and economic growth are major drivers behind industry modernization in Africa, and they can predict industry development.

**GDP per capita in Sub-Saharan Africa by country**

- More modern distribution and value chain structure
- Traditional sector

**GDP growth as driver for industry change**

- Take-off
- Fast industrialization
- Mature

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seychelles</td>
<td>35,000</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>25,000</td>
</tr>
<tr>
<td>Maldives</td>
<td>20,000</td>
</tr>
<tr>
<td>Gabon</td>
<td>15,000</td>
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<tr>
<td>Angola</td>
<td>12,000</td>
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<tr>
<td>Namibia</td>
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<td>Senegal</td>
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<td>Zimbabwe</td>
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<tr>
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<td>Uganda</td>
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<td>Rwanda</td>
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<tr>
<td>Mozambique</td>
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<td>DRC</td>
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</tr>
<tr>
<td>CAR</td>
<td>500</td>
</tr>
</tbody>
</table>

Source: IMF, FAO, Rabobank 2020
Africa’s Economic Growth Is Impacting Poultry Demand Significantly

Ongoing changing consumer demand, with more modern distribution and higher-value products, will push poultry investments

Source: Rabobank 2020
The Rise of Modern Distribution as a Platform for Poultry Growth

Supermarket and restaurant chains are expanding in Africa to tap into changing market interests among Africa’s rising middle class.

**Internationalization of modern grocery distribution in Africa**

**Quick-service restaurant expansion in Africa**

<table>
<thead>
<tr>
<th>Key international investors in African grocery retail</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Géant, Leader Price, Monoprix, Carrefour, Auchan, ShopRite, Usave, Checkers, OK, SPAR, Pick n Pay, Game, Woolworths</td>
<td></td>
</tr>
</tbody>
</table>

Source: Rabobank 2020
Africa’s Online Food Distribution Is Expanding Fast

Fast growth in home delivery will offer poultry and egg suppliers an additional platform for growth.

**Food and drink online retailing in the Middle East and Africa**

- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2018**

**The internet penetration rate in Africa is below the global average but growing fast**

**Poultry distribution in Africa: online growth will drive change**

- Online to overtake some of the growth potential of foodservice and retail
- Low labor costs to strengthen the position of home delivery
- Potential to supply complete meals
- Strong link with the high penetration of Africa’s mobile payment service

Source: FAO, Rabobank 2020
IV How to Invest in Africa
Building up a Poultry and Egg Value Chain in Africa
Compound feed and breeding offer a base for further value chain development

Grains & oilseeds → Feed → Breeding → Farming → Processing → Customer

- Limited availability and low-quality resources
- Secure high-quality, low-priced feed ingredients
- Base for all African poultry investment: solid position in feed and breeding
- Enter high-quality meat market
  - Secure quality
  - Improve efficiency
  - Early adopter margin potential
- Investors gradually invest more in the value chain downstream and upstream, depending on market conditions and supply challenges. Finally, industries move more toward semi- and fully-integrated business models
- Governmental ambitions for food security and self-sufficiency
  - Weak infrastructure
  - Access to finance

Source: Rabobank 2020
Africa’s Poultry and Egg Value Chains Are Changing
Changing consumer demand will gradually push a shift from traditional to modern

Old/traditional model
- Smallholders
- Largely inefficient
- Small volumes
- Live-bird focus
- Traditional breeding
- No cold chain

New/modern model
- Small- to mid-sized integration
- Feed/breeding base
- Modern breeding
- Multi-purpose chickens
- Bigger volumes
- New cold chain

Source: Rabobank 2020
Sub-Saharan African Feed Grain Supply
Big potential, but lacking supply due to inefficiency in the supply chain

Land availability: a lot of unexploited arable land

Grain & oilseed supply: a bottleneck for growth

Farm inputs:
- Limited availability of seeds, ag chemicals, and fertilizers

Farming:
- Small sizes
- Limited knowledge
- Difficult to access financing

African wheat self-sufficiency is still low:
- Wheat: 26%
- Coarse grains: 100%
- Oilseeds: 100%

Distribution:
- Losses in value chain
- Underdeveloped storage and distribution
- Government intervention

Food distribution
- (maize is often a staple food)

Food distribution (wheat, in some cases, is a cheap alternative to corn)

Biofuel

Source: FAO, Rabobank 2020
Source: Rabobank analysis, 2020
Corn and Soybean Yields in Africa, Compared to Peers
Upgrades are needed to make food more affordable and industries more competitive

Corn yields in Sub-Saharan Africa and globally, by country

Soybean production yields in Sub-Saharan Africa and globally, by country

Source: USDA, FAO, Rabobank 2020
Investments Are Accelerating as Interest Grows
A Strong Investment Story Will Drive More Sizable Investments
This will lead to ongoing upgrades of the value chain

Source: Rabobank 2020
Time for Africa
2020: Investments are accelerating, and global interest is growing

Investments in the region are accelerating

- **Long-term market growth**: Is roughly in line with expectations. Eastern Africa will remain in the lead, in terms of growth. Western African countries, like Nigeria and Ghana, will advance, driven by increased food security ambitions.

- **More sizeable industries**: Local industry will expand, due to ongoing growth, and this will make more sizeable investments in the region possible.

- **Volatility**: Is a business reality in Africa, but it can be handled by strategic investment assessments and risk-mitigating investment strategies.

- **Regional trade**: In Africa is increasing, with Zambia increasingly acting as a hub in Southern Africa and Kenya and Uganda operating as hubs in Eastern Africa.

- **Breeding**: Is growing significantly, and more modern genetics are gradually being used in growing markets. Meanwhile smallholder producers are increasingly shifting to multi-purpose breeds, making their businesses more productive.

- **Equipment**: Is growing in line with investments. Feed milling, hatchery, and farming technology are in the lead, but processing equipment is growing gradually.

- **Animal nutrition**: Is one of the earlier industries to benefit from growth in Africa, with the rising use of compound feed and (indirectly) feed ingredients, including premixes and concentrates.

International interest in Africa’s investment story is rising

- Since 2016, ongoing growth and investment potential have attracted more global investors to tap into opportunities.

- Governments are offering more support for local supply, but macro and infrastructural volatility remain.

- Since 2010, rising demand has led to industry upgrades in some leading markets in Sub-Saharan Africa.

- Southern African investors started to expand five to ten years ago.

- With very few international investors, local investors were in the lead until 2010.

Source: Rabobank 2020
Important notice