

The Lebanese F&B Industry: Growth Prospects despite a Precarious Backdrop



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The headline on KPMG's 2013 Food and Beverage Industry Outlook reads: "The table is set for change". Indeed, the global F&B industry is going through a sweeping alteration as advanced technology remodels the way consumers conduct their purchases and reshapes the way companies do business. Moreover, the budding global economic recovery is offering a new backdrop for the industry.

The Lebanese F&B industry has however its own set of characteristics and challenges. The following overview, based on the latest Business Monitor International (BMI) "Food and Drink Report" scans the sector over a 5 years span.

Food, Drink and Tobacco Trade Indicators (In \$M)

	2010	2011	2012	2013f	2014f	2015f	2016f	2017f
Exports	285.8	307.4	316.9	341.6	366	392.7	415.2	429
Imports	488	490	491.8	493.8	495.8	498.2	500.8	503.1
Balance	-202.1	-182.6	-174.9	-152.2	-129.7	-105.5	-85.6	-74.1

Source: Business Monitor International, Food and Drink Report 2014

With a cemented tradition of commerce and enterprise, the Lebanese food industry offers several strengths and opportunities. Local food producers actually benefit from the widely spread diaspora, which constitutes great export opportunities.

Moreover, the taste and preferences of Lebanese consumers are more westernized than most of their regional peers, a trait which attracts a larger and more diversified supply onto the market.

Despite an uninspiring macroeconomic backdrop, BMI still forecasts a growth in food consumption, even surpassing growth recorded in previous years by 2015.

On the supply side, the BLOM Lebanon PMI readings are a reflection of a struggling private sector. The index was still hovering near the 50-points mark separating economic expansion from contraction in early 2013, but has dropped well below that threshold to reach 44.7 in January 2014.

On the consumer's side, the Consumer Confidence Index (CCI), issued by ARA Marketing Research and Consultancy, tumbled from 100 points in 2012 to 66 points in 2013. The internal and neighboring instability affected the consumer sentiment for both present and future scenarios. The Current and Expected Personal Income sub-indices drowned by yearly 78 points and 25 points to settle at 110 points and 46 points in December, respectively.

However, BMI projections suggest a 4.3% growth in food consumption in 2014 and a 3.9% compounded annual growth rate (CAGR) from 2014 to 2017. BMI also foresees per capita food consumption to advance by a CAGR of 3.6%, going from \$1,665.69 in 2014 to \$2,016.06 in 2017.

Continued investment in Lebanon's food processing and Mass Grocery Retail (MGR) sector are believed to be major growth drivers for the industry. Sector sales are projected to increase as a larger variety of food products comes to cater to a wider audience. More specifically, demand for packaged and processed foods is likely to rise along with social changes such as a higher single-person households and a higher participation rate of women in the workforce.

MGR sales are also seen to grow over BMI's forecast period 2014-2017. Total sector sales will witness a robust growth of 26.4% to reach \$3.85B, albeit lower than the 27.4% rate over the period 2007-2012.

Lebanon's MGR sector comprises mainly of supermarkets and hypermarkets. The supermarket format, which accounted for 88% of sector sales in 2012, will likely continue to dominate sector sales. However, the supermarket format might grow at a slower pace of 27.4% between 2014-2017 as compared to 78.8% in the 2007-2012 period.

The number of operating retailers managed to ensure healthy levels of competition on the market, urging companies to launch promotional and marketing campaigns to preserve their market share. New store openings made by existing retailers, mainly operating on franchise basis, will act as key engines for the sector.

However, the report highlights that given the current domestic political outlook, the entry of new retailers is highly unlikely. Still, the MGR sector offers several untapped opportunities. The most prominent of which would be the opening of smaller convenience and discount outlets outside Beirut, thus providing lower-income consumers with good quality products and converting them to modern retailing.

As for the beverages sector, it is well established across the board.

Lebanon's alcoholic drinks industry, supported by a long history of viticulture, has great potential on both local and diaspora markets. Per capita annual alcoholic drinks consumption in the country is estimated at five liters/year well above the one liter/year consumed in the UAE, which encompasses a large expat population. Prior to the Syrian war, tourism was the key engine for the alcoholic drinks industry, but recurrent security incidents dried up visits from Western states and subdued the industry's activity.

Alcoholic drinks consumption might be high by regional standards, but it remains low by Western standards. In Lebanon, it's the soft drinks industry that proves to be the most dynamic. Over the forecast period, BMI anticipates a double-digit growth of 15.4% in soft drink sales which would total \$675M by 2017.

On the long haul, carbonate, bottled water and fruit juice segments are expected to be main growth pillars. Bottled water sales have a robust performance in Lebanon with per capita consumption expected to grow from 85.8 liters in 2014 to 87.8 liters in 2017.

The shift in consumers taste and preferences over the past decade is also in favor of the non-alcoholic drinks segment. The rising consciousness for healthy drinks is pushing companies to focus their product innovation on non-alcoholic beverages. Most likely, BMI anticipates this trend to remain at the niche end of the market as most consumers are priced out of the market.

On a broader note, BMI's Food and Drink Risk/Reward ratings for the first quarter of 2014 provide us with a benchmarking platform for Lebanon against its MENA peers. Lebanon ranked 9th amongst 15 MENA countries with a Food and Drink rating of 44.4 (over 100), ahead of Tunisia, Oman, Iran, Libya, Morocco and Syria but behind Saudi Arabia, Israel, Egypt, UAE, Qatar, Kuwait, Algeria and Bahrain.

Lebanon's overall reward rating of 40.7 was undermined by the low country reward rating of 25.3 which overshadowed the substantial industry reward rating of 56. The country reward rating was mainly subdued on account of a weak macroeconomic backdrop. Contrastingly, the risk rating stood higher at 49.9 with industry risk scoring 55 and country risk scoring 44.8. The elevated industry risk score lies mainly on the back of weak enforced regulations and bureaucratic hurdles.

To sum it all up, the Lebanese F&B industry still holds great growth potential despite a rough economic climate. Although fostering this potential will require active steps to fight corruption and reduce bureaucracy, the Lebanese market still holds on to its appeal especially with its consumers' sophisticated and diversified taste.

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