Liquor groups to benefit from growing African market

Producers of alcoholic beverages - brewers in particular - stand to benefit from the growing consumer market in Africa as more people on the continent move out of poverty, says Moody's Investors Service in a new report published on Wednesday, 9 May 2012.

"We see strong growth potential in the African market as more people move from home-brewed beer and spirits to commercially produced alcohol," said Knut Slatten, an Analyst at Moody's.

The beer market in Africa currently represents only 5% of worldwide volumes with four players controlling more than 80% of the market - SABMiller plc (Baa1 stable), Diageo plc (A3 stable), Heineken NV (Baa1 stable) and Castel Group (unrated). They have all obtained a first-mover advantage among brewers operating in the continent.

Nigeria is one of the largest Guinness markets in the world for Diageo, and Sub-Saharan Africa is SABMiller's fastest-growing region. In the premium segment, the Heineken brand is showing a higher rate of organic growth in Africa and the Middle East than the company's total volume growth in the region.

"The overall profitability of alcoholic beverage companies' African operations is high and most should benefit from continued growth in the premium segment," added Slatten.

Brewers are also using lower-priced alternatives to barley, such as sorghum or cassava, to produce beer tailored to the local market. The use of locally grown raw materials has in some cases enabled companies to lower excise-taxes, allowing them to reduce production costs and ensure affordability without lowering profit-margins.

Short term profits could however be limited by potential disruptions in the supply chain including a still-fragile macroeconomic environment where countries may be subject to exogenous shocks, and regional droughts that may severely hamper harvests. The large investment needed to run a number of small, regional breweries has also led to significant cash outlays for brewers in the past. Furthermore, brewing capacity is a constraint and high capital expenditure is likely to be a drag on free cash flow generation over the next 2-3 years.