

Investment Opportunities in Nigeria's Poultry Value Chain

January 2020





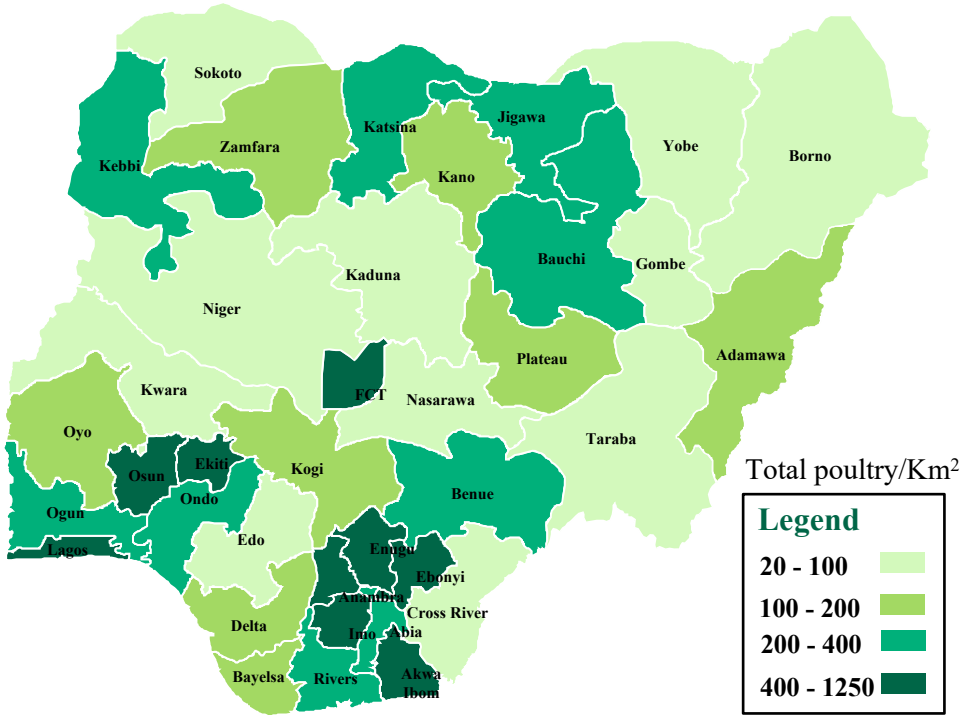
The agri-sector and poultry subsector has shown continued prospects for strong growth in the short, medium and long-term

The agricultural sector is the largest contributor to the Nigerian economy with the poultry subsector uniquely positioned to quickly expand its footprint in Nigeria

- The poultry sub-sector contributes about 25% of agricultural GDP to the Nigerian economy.¹
- Poultry consumption has continued to outstrip production by an average of 47% annually, over the past five years, indicating a huge opportunity for local production.
- Chicken import was banned by Nigeria in 2003, which spurred growth in domestic poultry production.
- Expected increase in poultry production to 300,000MT following the recent border closure.
- The next two decades could see a 10-fold rise in poultry meat production.

Poultry density in Nigeria

In Nigeria, poultry are reared by an estimated 7.9 million households all across the country



There are numerous factors encouraging the long-term growth of the poultry industry in Nigeria

1

Increased investment

Entry of companies such as FMN, Olam into the poultry subsector

2

Availability of land

Nigeria has about 50.4 million hectares of uncultivated arable land

3

Government support

Such as reduced duties on agri-machinery, tax roll over reliefs

4

Economic factors

Such as growing population, middle-class and disposable income

Source: ¹CBN, FAO, Sahel Capital



Several viable investment opportunities exist across the poultry value chain

Specifically identified opportunities include:

Inputs opportunity value

\$57.7mn

Opportunity includes:

- Invest in integrated feed production including the growing of ingredients such as soy and maize, vaccine production facility and in the provision of mechanised poultry equipment in Nigeria.

Production opportunity value

\$73.65mn

Opportunity includes:

- Invest in provision of hatchery i.e fertile eggs to DOC and the breeding and rearing of broilers. Other opportunities include investment in incubation equipment, compressed air system, hatchery automation, egg handling, brooder etc

Distribution opportunity value

\$17.7mn

Opportunity includes:

- Invest in provision of haulage vans that can transport live birds processed and semi-processed chicken to their point of sale/consumption and provision of storage/coldroom facility services

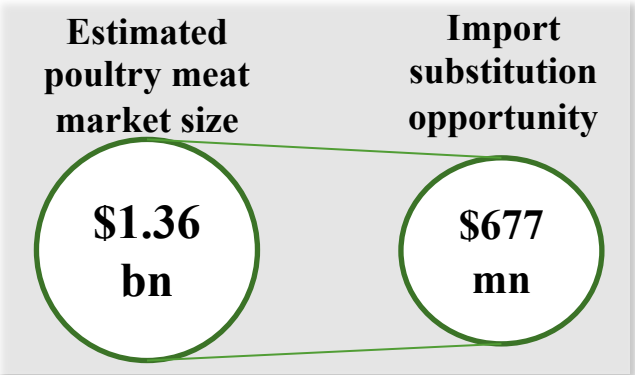
Processing opportunity value

\$5.7mn

Opportunity includes:

- Invest in poultry processing facilities with integrated processing technology to produce packaged poultry finished products for local consumption

The sub-sector has recorded multiple investments from private sector players including large conglomerates taking advantage of the huge opportunities



Commercial players

Large conglomerates

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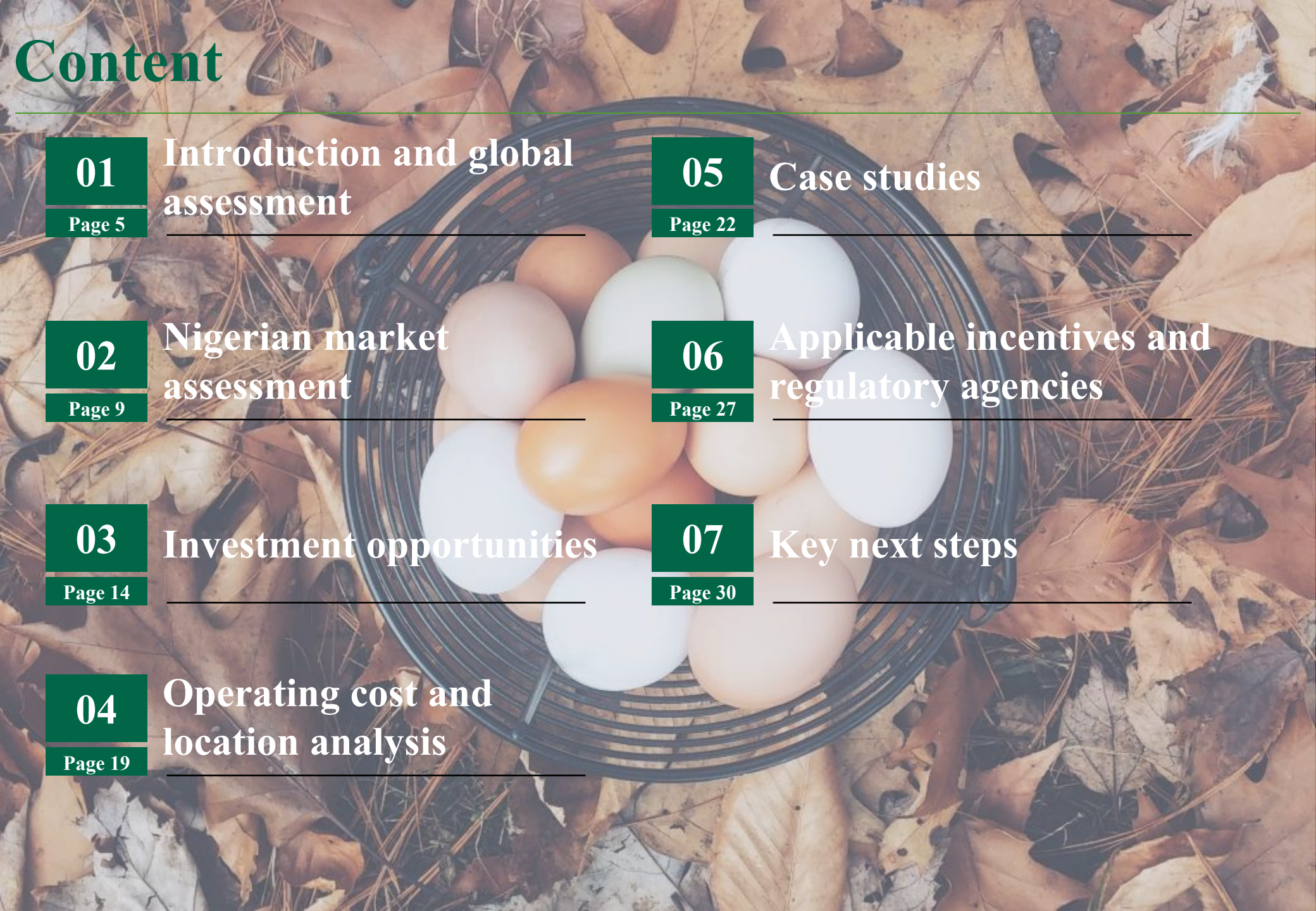
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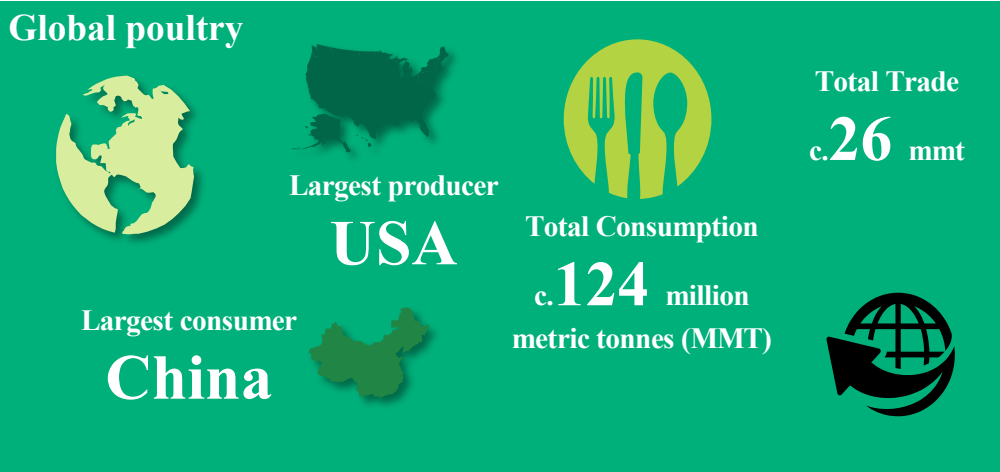
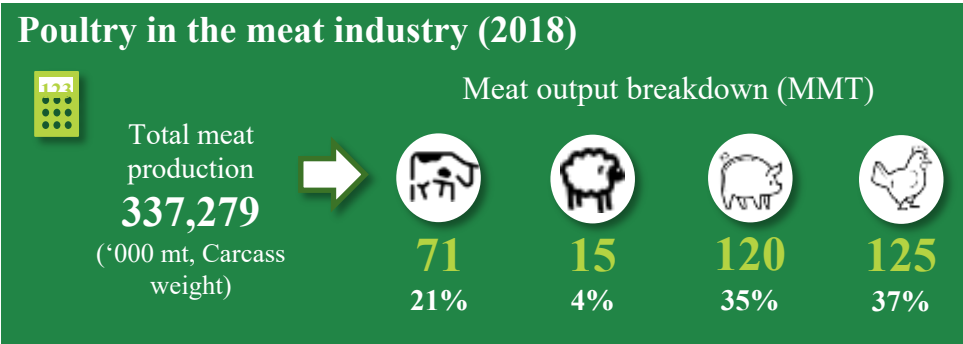
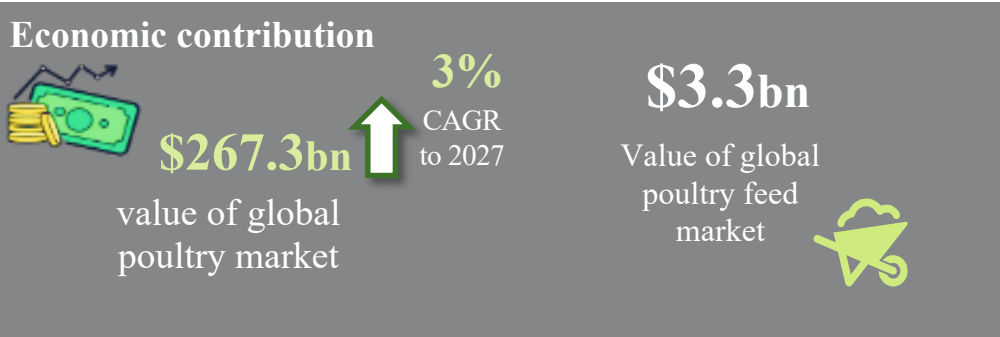
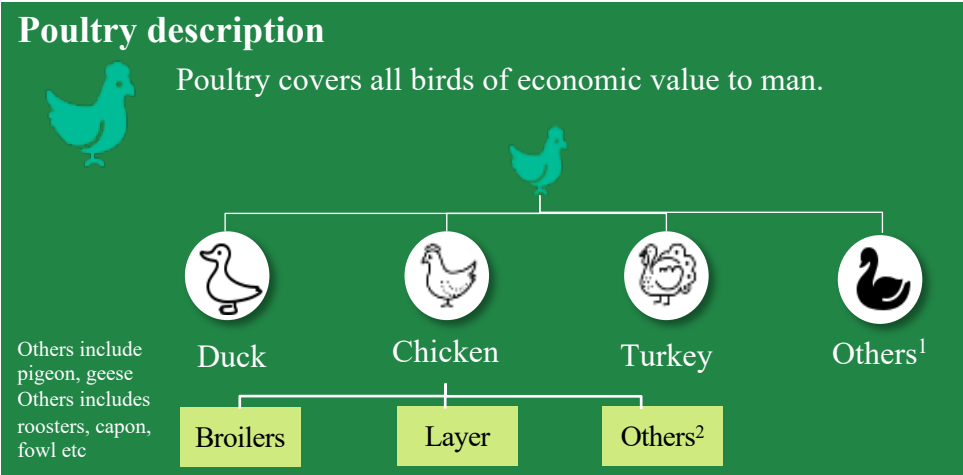


01.

Introduction and global market assessment



Poultry is a key product within the agricultural livestock sector with a global economic contribution estimated at \$267.3bn

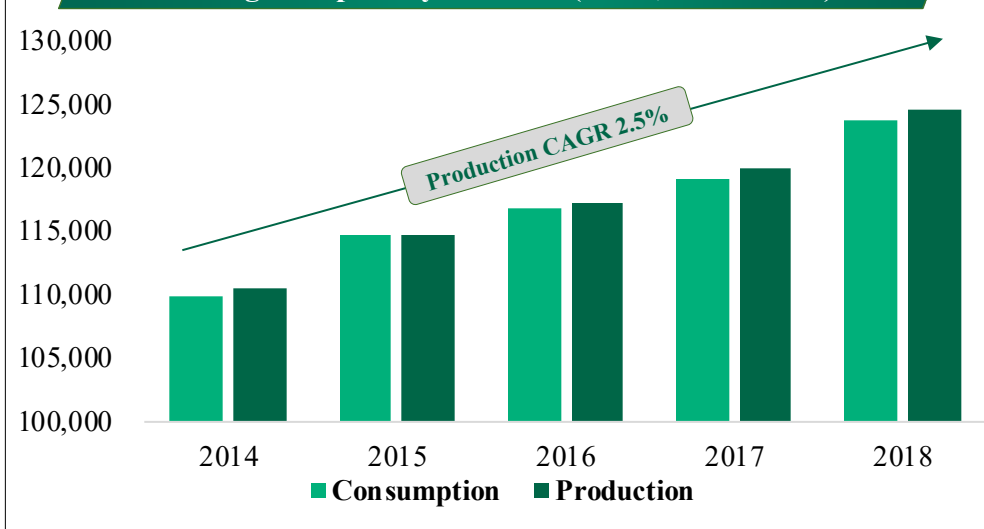


Source: businesswire, Rabobank, FAO

Global production and consumption

Global poultry production and consumption has risen significantly with varying contributions from countries and regions

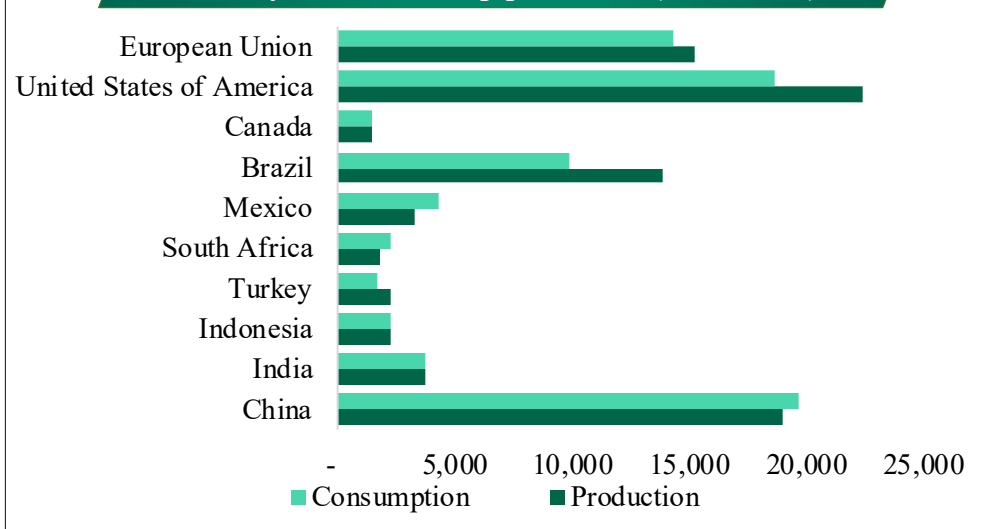
Total global poultry statistics (\$'000,2014 – 2018)



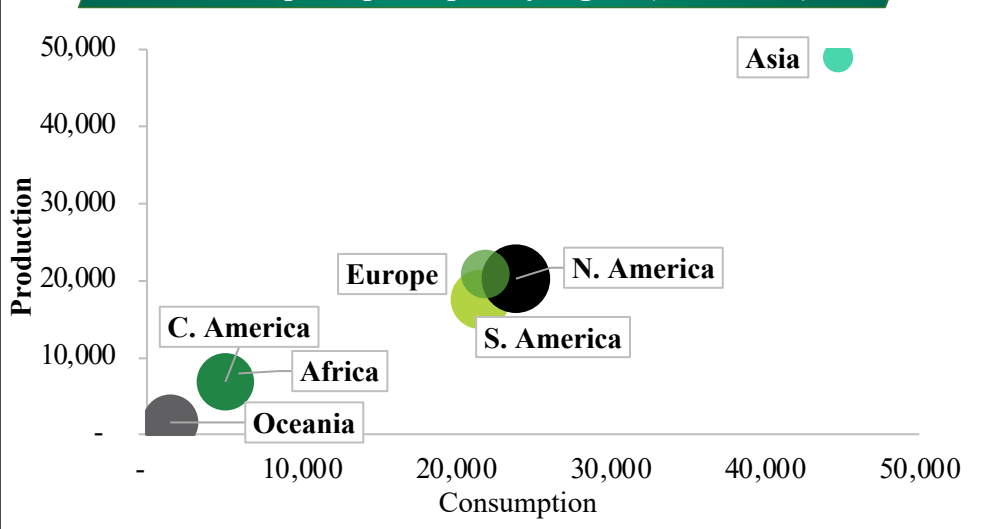
Poultry is one of the most heavily consumed meats in the world

- China consumes c.20 MMT of poultry, the largest globally
- The USA leads in the production of poultry and produces c.4 million tonnes more than it consumes
- Annual poultry consumption per capita in North America is 55.5kg and just 6.2kg in Africa
- Asia produces and consumes the most of all the regions but has a low per capita consumption of 10.7kg

Poultry statistics in top producers (\$'000,2018)



Consumption per capita by region (\$'000,2018)

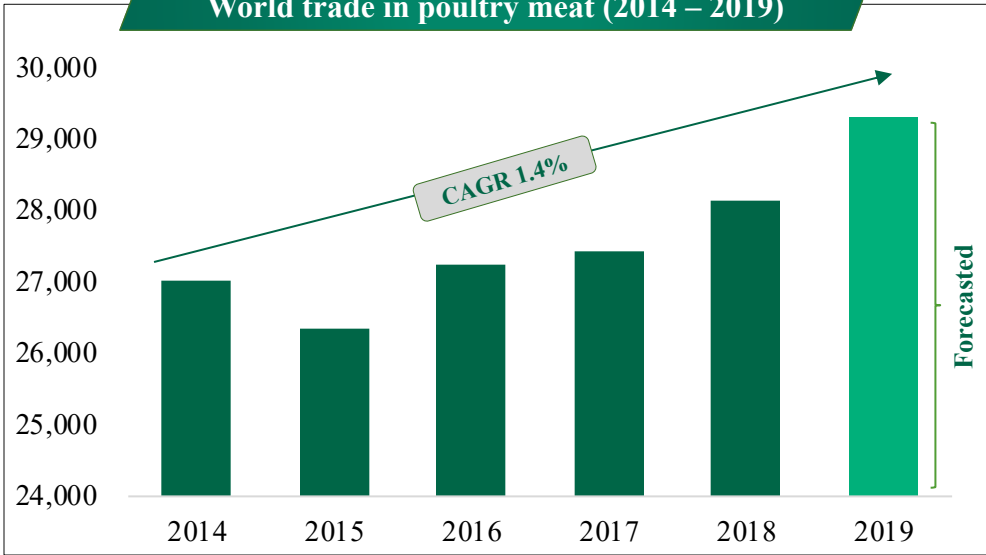


Source: Fao Food Outlook



Due to countries varying ability to meet demand, trade in poultry has also grown significantly over the last five years

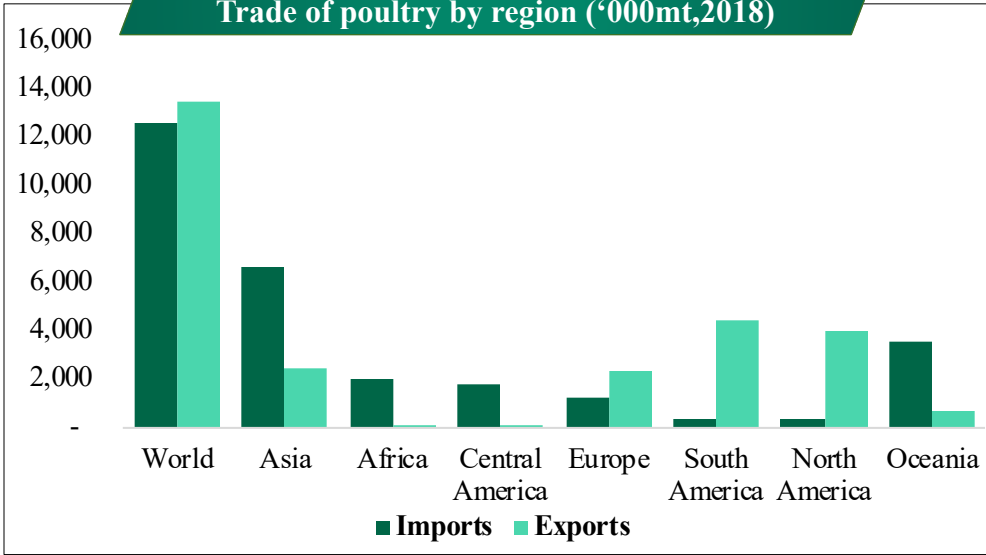
World trade in poultry meat (2014 – 2019)



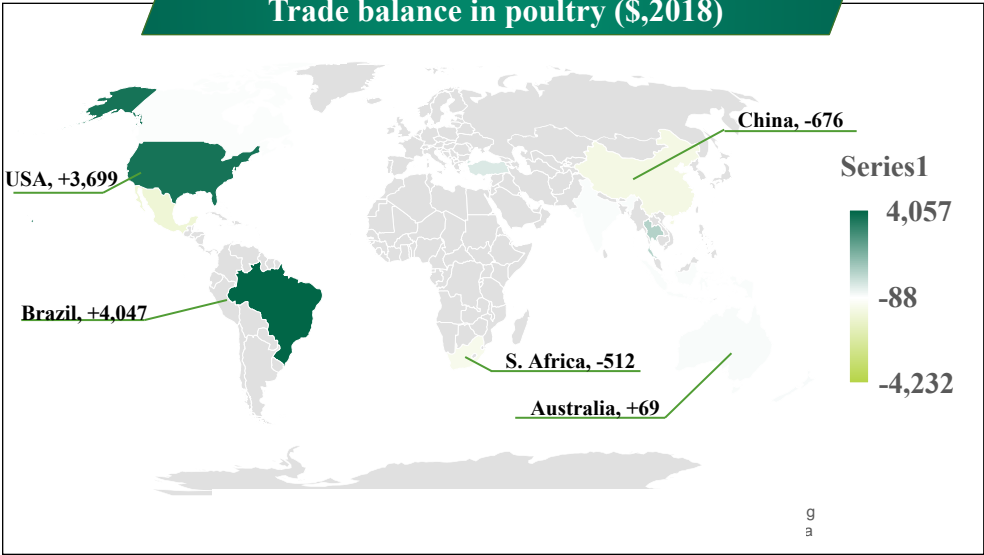
Regional trade surpluses in poultry are usually possessed by developed economic regions such as Europe and N. America

- South America, North America and Europe all possess trade surplus' in the trade of poultry, where Africa, Asia and Central America rely on imports to meet demand
- Asia is responsible for the largest amount of poultry trade of all regions
- The Asian continent is heavily dependent on imports to meet local demand

Trade of poultry by region (*000mt,2018)



Trade balance in poultry (\$,2018)



Source: Fao Food Outlook

A photograph of four brown chickens with red combs standing in a wooden enclosure. The chickens are positioned in the upper half of the frame, with a green background of foliage. The lower half of the frame is a dark green banner containing text. The banner has a white horizontal line at the bottom.

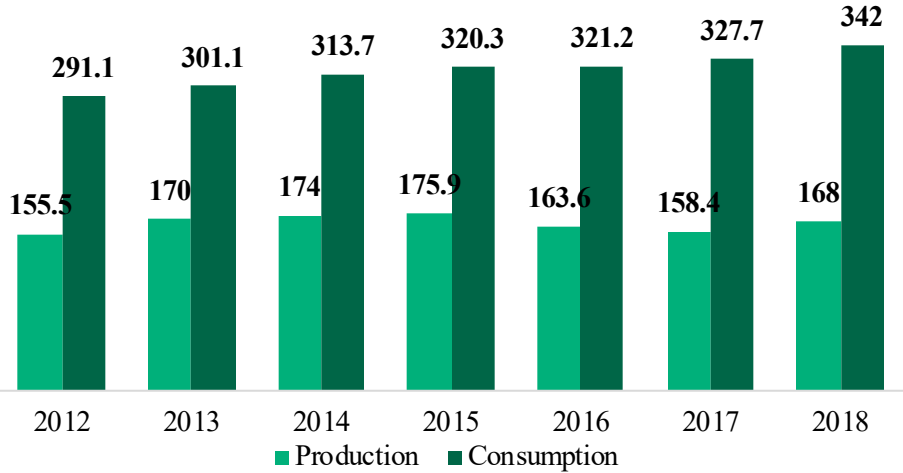
02.

Nigerian market assessment



Nigeria provides an attractive poultry investment destination backed by strong demand for poultry products

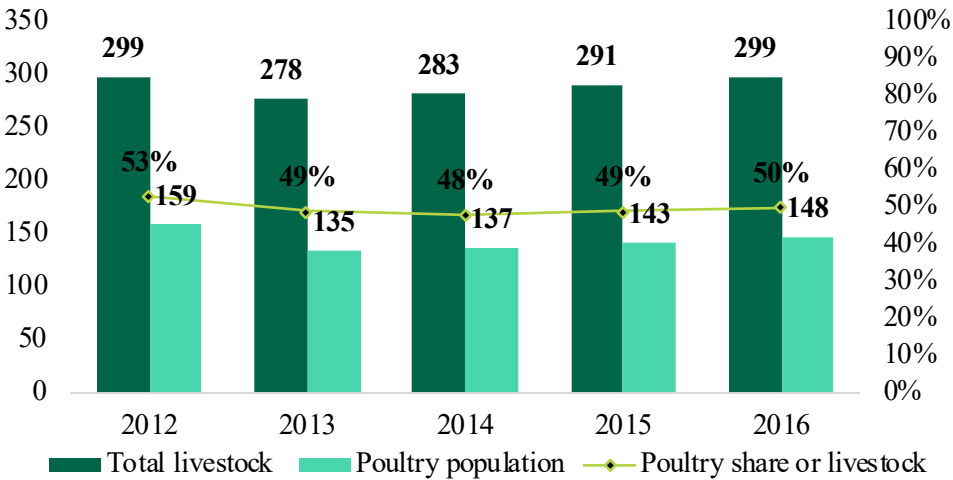
Nigeria poultry statistics, ('000MT, 2012 – 2018)



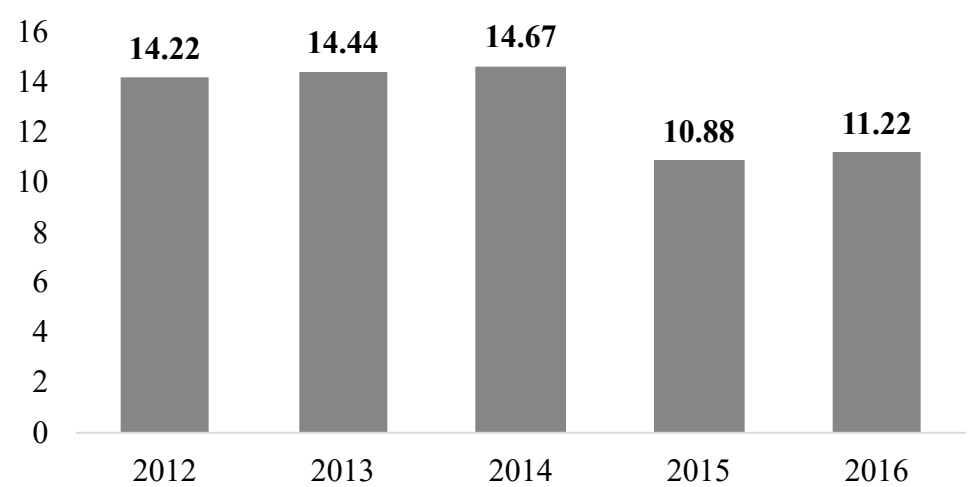
Nigeria has a strong position in egg production but its poultry output leaves room for improvement

- Nigeria requires imports to meet more than half of its consumption. The country currently has a ban on poultry imports, however, poultry is still being smuggled into the country.
- Nigeria remains the largest egg producer in Africa.
- The bird population in Nigeria accounts for 56% of livestock
- Per capita poultry consumption in Nigeria is 1.75kg per person which falls below the 6.2kg Africa average.

Nigeria poultry vs livestock (2012 – 2016, Units, mn)



Egg production in Nigeria (2012 - 2016, Units, mn)



Source: Fao Food Outlook, Poutrytrends

No.1

Egg production

- No.1 Producer of eggs in sub-Saharan Africa (650 MMT)

No.2

Poultry population

- No. 2 chicken population in sub-Saharan Africa (148 -165 million)

14m

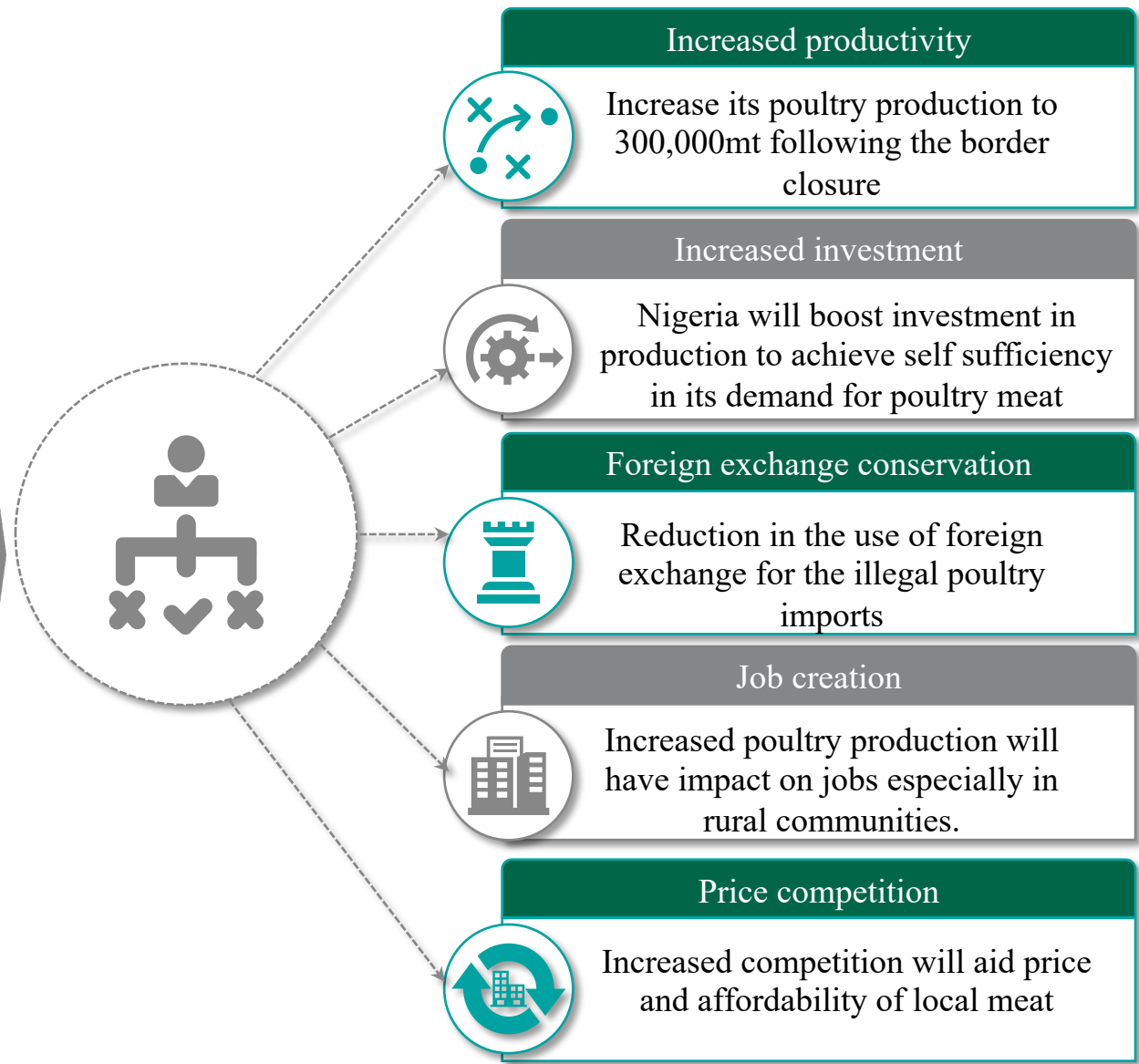
Employment

- 14 million persons are employed in poultry farming in Nigeria.

No.2

Meat production

- No.2 Poultry meat producer in sub-Saharan Africa (168,000mt)

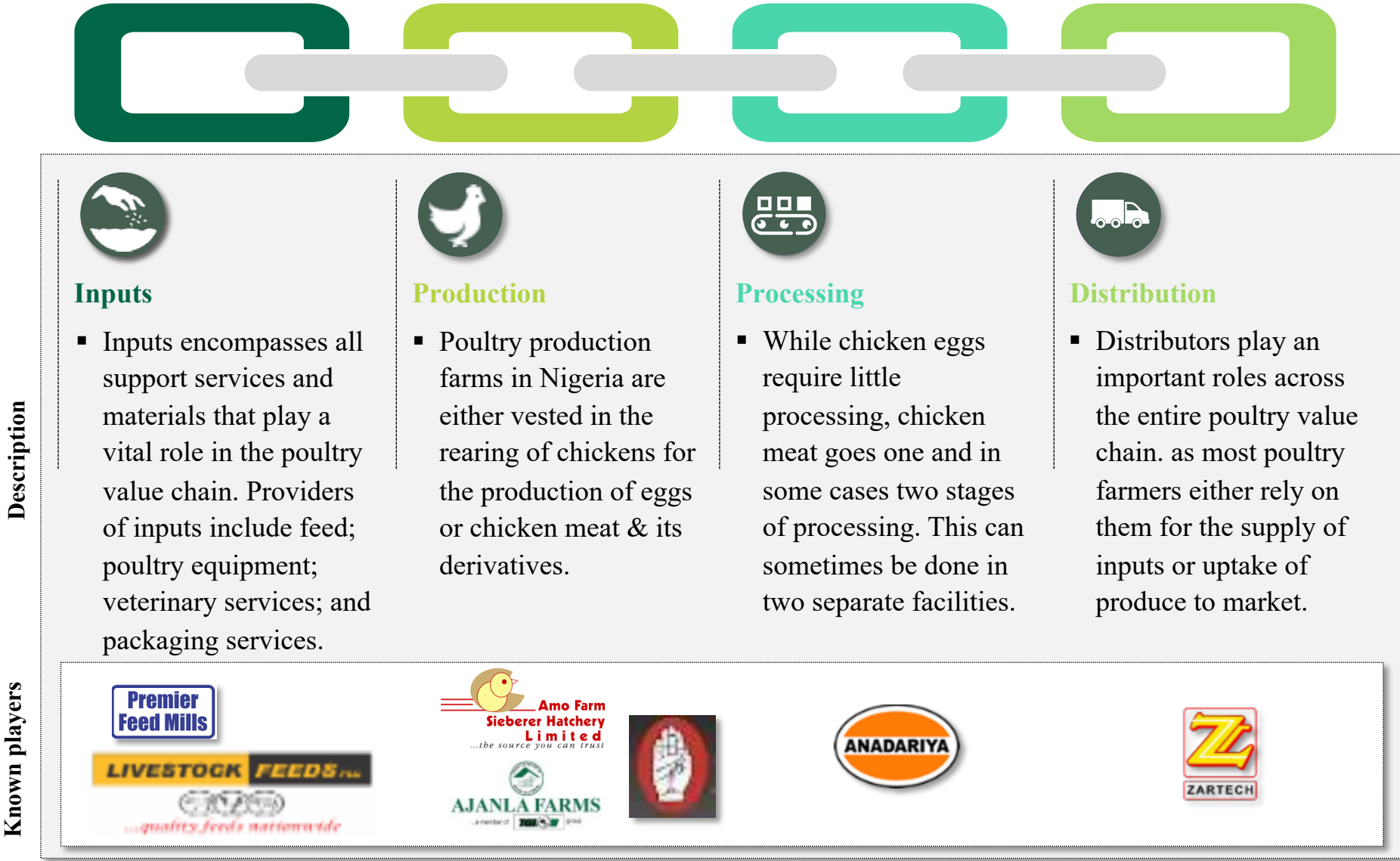


Source: Sahel Capital, FAO, Rabobank,



The Nigerian poultry value chain is noticeably modernising and growing in capacity allowing for increased participation

The Nigerian Poultry Value Chain



Source: KPMG Analysis



Nigeria's positive demand drivers point to a continued expansion of the consumption of poultry in the future

The growing middle class in Nigeria, characterised by rising disposable incomes, has given rise to increased demand for poultry products.

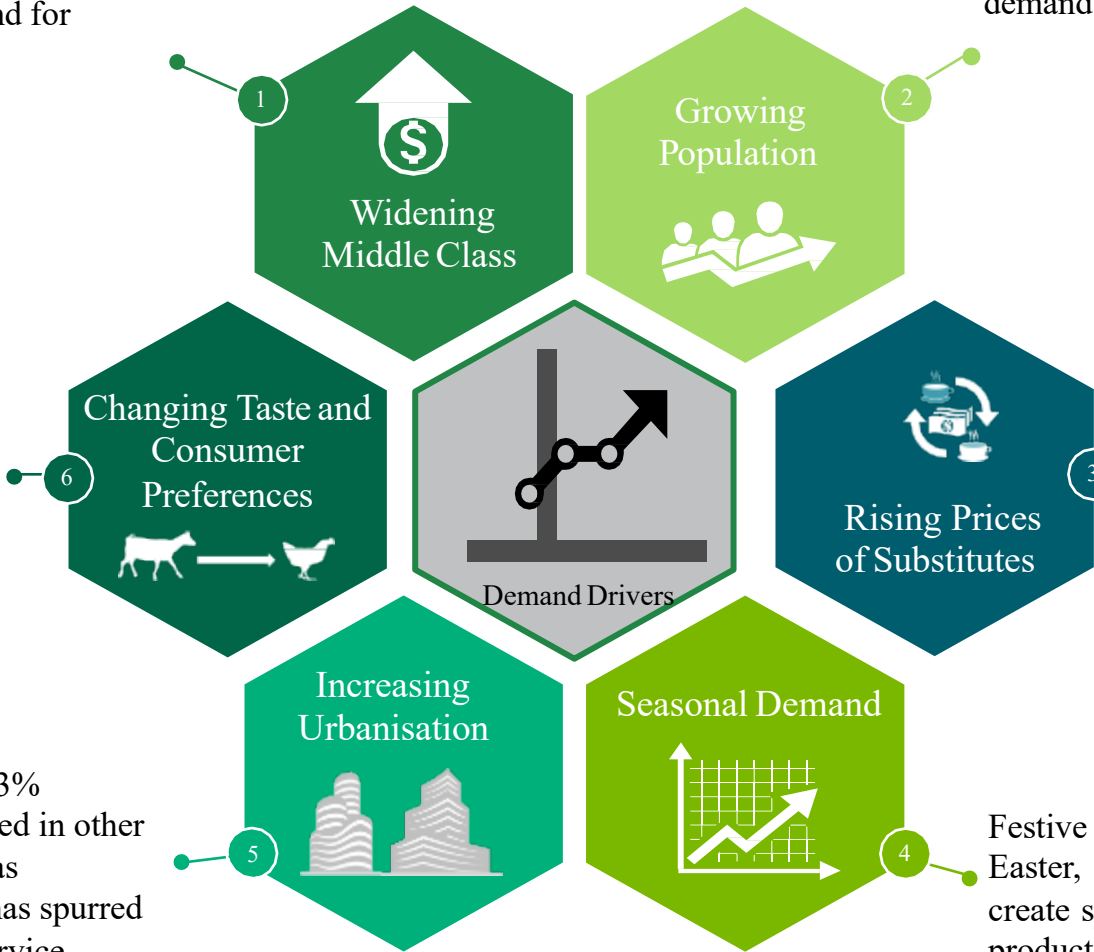
The Nigerian population is projected to exceed 264 million by 2030. This indicates a significant increase in the demand for food and poultry products.

Consumers are increasingly becoming more health conscious, preferring white meat over red meat. This change continues to drive the demand for poultry meat..

Continuous innovation has yielded highly productive breeds at reduced feeding costs, resulting in an increase in supply of a variety of high quality poultry products which are competitively priced in comparison with other protein sources.

The rapid rate of urbanisation (4.3% annually, World Bank) has resulted in other consumer lifestyle changes such as preferences for eating out. This has spurred growth in the number of quick service restaurants, hotels etc. which typically promote poultry products across their menu.

Festive periods such as Christmas, Easter, Eid al-Fitr, Eid al-Adha etc, create spikes in the demand for poultry products. As such consumption is linked to the continuity of Nigerian holidays and festivities.



Source: KPMG research

A photograph of four brown chickens with red combs standing in a wooden enclosure. The chickens are positioned in the center and left of the frame, looking towards the right. The background is a blurred green field. The foreground shows wooden planks and a wooden post. A dark green banner with white text is overlaid on the bottom left of the image.

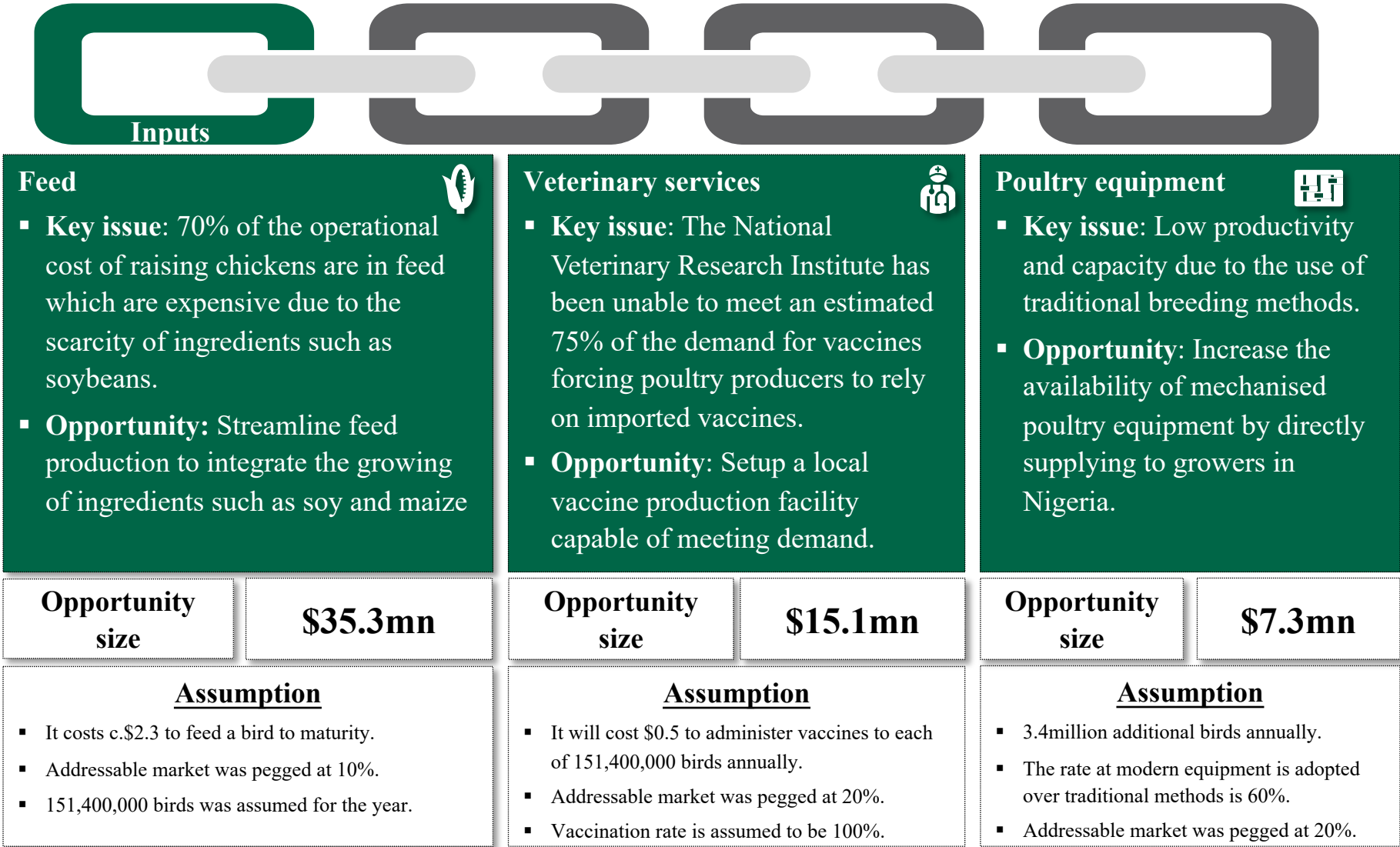
03.

Investment opportunities



Feed production in Nigeria is particularly attractive segment as 52% of livestock farmers source their feed externally

The Nigerian Poultry Value Chain



Source: KPMG Analysis



Production of poultry in Nigeria only meets 47% of its demand while the rest is met by illegal meat imports

The Nigerian Poultry Value Chain



Breeding

- **Key issue:** Hatcheries are facilities that incubate fertile eggs and supply Day-old-chicks (DOC). They are typically owned by livestock farmers but as they are usually small farmers, provision of DOC has thrived as a production segment.
- **Opportunity:** Provision of hatchery i.e fertile eggs to DOC.

Opportunity size	\$5.45mn
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Assumption ▪ It is estimated that DOC market is 2% of the overall poultry meat market. ▪ The size of the poultry meat market is valued conservatively at \$1.4bn.
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Meat production

- **Key issue:** Nigeria currently possesses a 174,000 MT poultry production deficit as farmers are unable to meet demand for poultry in the market.
- **Opportunity:**
 - Option 1 – Engage existing hatchery owners for sale of DOC’s.
 - Option 2 – Participate in the hatchery through to processed product finished.

Opportunity size	\$68.2mn
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Assumption ▪ 350,500MT consumption with a 5% addressable market. ▪ Price of 1MT of poultry is pegged at 3,889. ▪ Addressable market was pegged at 5%.
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Source: KPMG Analysis



Processing is major element that continues to thrive in light of Nigeria’s middle-class trends

The Nigerian Poultry Value Chain



Processing



- **Key issue:** Market players estimate that as much as 70% of the frozen chicken products consumed in Nigeria is smuggled. This points to local production gap in the frozen chicken segment which is exacerbated by the tighter border control regime.
- **Opportunity:**
 - Engage existing farmers as outgrowers, and incentivise them by providing part payment and ready uptake of output.
 - Invest in integrated processing technology to produce packaged poultry finished product
 - Other opportunities include investment in incubation equipment, compressed air system, hatchery automation equipment, egg handling equipment, brooder equipment, automatic feeders etc

Opportunity size	\$5.7mn
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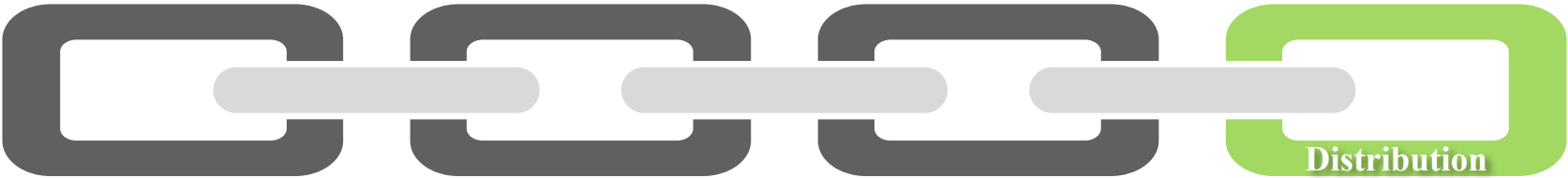
Assumption

- Packaged poultry finished product is assumed to take up 0.6% of the overall poultry meat market
- The size of the poultry meat market is valued conservatively at \$1.4bn.
- Addressable market was pegged at 70%.



The distribution and storage segment of the poultry value chain provides key opportunities for investment

The Nigerian Poultry Value Chain



Distribution

- **Key issue:** Provision of distribution infrastructure is a major need in the poultry sector due to the relatively short lifecycle of poultry products.
- **Opportunity:** Provision of haulage vans that can transport live birds processed and semi-processed chicken to their point of sale/consumption .

Opportunity size	\$6.8mn
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Assumption
▪ Distribution market values are based on poultry produced. ▪ Average logistics cost is c.\$68.66 per MT. ▪ It is assumed that all chicken is distributed to market. ▪ The addressable market is pegged at 15%

Storage

- **Key issue:** Storage (cold rooms for preservation purposes, until demand is made by retailers and commercial consumers) is a growth opportunity area in the distribution/wholesale segment.
- **Opportunity:** Provision of storage/coldroom facility services.

Opportunity size	\$10.9mn
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Assumption
▪ Average storage cost per poultry/month is c.\$0.6. ▪ Total chicken population will require storage for an average of one month before consumption. ▪ The addressable market is pegged at 30%

Source: KPMG Analysis

A photograph of four brown chickens with red combs standing in a wooden enclosure. The chickens are positioned in the center and left of the frame, looking towards the right. The background is a blurred green field. The foreground shows wooden planks and a log. A dark green banner with white text is overlaid at the bottom.

04.

Costs and location analysis

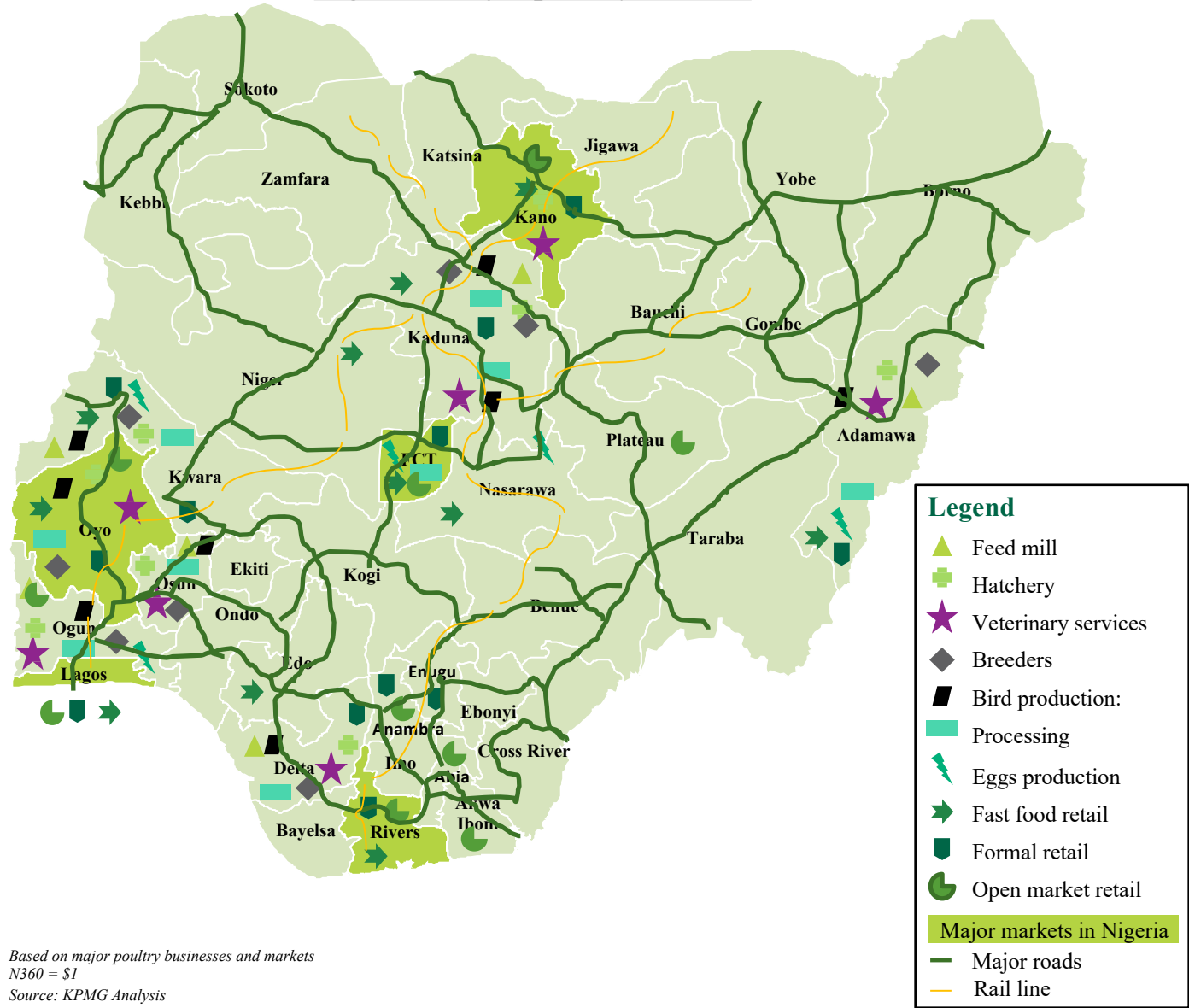
Cost drivers

The costs to start a poultry operation in Nigeria may depend on the type of operation, scale and technology adopted ^{1/2}

Cost driver	Option	Description	Cost (\$)
Land costs	Purchase	Land may be acquired at no cost where the firm receives active state government support for the project or, where not the case, land may be acquired.	0 - \$5000/per m2
	Rental	Alternatively land cost be leased can be leased	\$4.2 - \$13 /m2/month
Building costs	Build	Where investor would prefer to building constructed fit for purpose a such can be achieved at c.\$18,910 (16.5m by 21.3m by 3.6m)	>\$18,910
	Rental	A suitable industrial property may be rented if available for lease in a suitable area	\$3.44 -\$5.12/ m ² /month
Equipment costs	-	Equipment costs is typically a one time cost and may vary markedly based on the level of sophistication desired. For a 3,000 capacity layer pen house and 10MT/day feedmill an investor should expect to spend c.\$53,530 on equipment.	>\$53,530
Labour costs	-	Labour may be dependent on the number of supervisory and management staff engaged.	\$80/person - \$555/person (monthly)
Logistics costs	-	For example, the freight cost from Lagos to Apapa (11km) would total \$650.	\$3.94/ton/km
Finance costs	-	The risk-free borrowing rate may be used although it would be difficult to obtain a loan at said rate	13.5% of capital sum per annum

Source: KPMG research

Nigeria's major poultry markets



Based on major poultry businesses and markets
N360 = \$1
Source: KPMG Analysis

Major poultry producing states and their costs to largest poultry markets

Origin	Closest Markets	Logistics	
		Distance (km)	Cost (\$)*
Adamawa	Kano	634	104.08
	FCT	795.5	130.59
	Rivers	982.6	161.21
Delta	Rivers	164.4	26.99
	Lagos	391.3	64.24
	FCT	549.6	90.23
Ogun	Lagos	62	10.18
	Oyo	184.5	30.29
	Rivers	550.9	90.44
Osun	Oyo	195.2	32.05
	Lagos	210.6	34.57
	FCT	492.4	80.77
Oyo	Oyo	-	-
	Lagos	231.6	38.02
	FCT	666.7	109.45
Kaduna	Kano	237.3	38.96
	FCT	244.8	40.19
	Oyo	750.2	123.13
Kwara	Oyo	248.3	40.76
	Lagos	342.8	56.28
	FCT	431	70.76

*Based on a cost of transporting a 15 ton container by road

A photograph of four brown chickens with red combs standing in a wooden enclosure. The chickens are positioned in the center-left of the frame, looking towards the right. The enclosure is made of dark wood, with vertical posts and horizontal beams visible. The background is a blurred green field. A dark green rectangular box with white text is overlaid on the bottom left of the image.

05.
Case studies

Key players

A number of notable companies of varying sizes have positioned themselves within the Nigerian poultry subsector

Key Players			
Players	Products	Infrastructure	Profile
 Olam Group	- Chicken feed - DOC - Chicken meat - Processed chicken	- A hatchery - Two poultry feed mills - Automated poultry farms	- Olam is a leading global agri-business. It's business operations in Nigeria has continued to expand over the last 28 years. - Olam operates Nigeria's largest integrated animal feed mill, poultry breeding farm and day-old-chick (DOC) hatchery in Kaduna, and manages another integrated poultry feed mill in Kwara.
 Obasanjo Farms Ltd.	- DOC - Table Eggs - Live birds - Processed chicken meat	- Hatcheries - Feed mill - Poultry farms - Poultry processing facilities	- Obasanjo farms ltd. (OFN) is a network of farms and facilities across Nigeria specialised in several functional areas of the agriculture value chain. - The company has been operational for more than 38 years and its poultry businesses are situated in Ogun and Oyo and Kaduna states at the Pureline ObaMarshall, OFN Igboora, Obagayan, OFN Alomaja, and the Ota chicken processing facilities.
 Ajanla Farms	- Breeding DOC - Commercial DOC - Processed chicken	- A hatchery - Automated poultry houses - Automated Poultry processing facilities	- Ajanla farms is an agribusiness company with a wide range of agricultural products and over 20 years of operational experience. - Ajanla has as its unique competence, the integration and distribution of Grand Parent Stock in Nigeria. - The company's corporate location is in Lagos but the farm is situated in Ibadan, Oyo state, with regional sales outlets in Asaba, Lagos and Ibadan.

Source: Company websites, company publications

Key players

A number of notable companies of varying sizes have positioned themselves within the Nigerian poultry subsector

Key Players			
Players	Products	Infrastructure	Profile
	■ Premixes and additives ■ Feeds and concentrates ■ Veterinary services and vaccines ■ Poultry equipment	■ A hatchery ■ Automated poultry houses	■ Animal Care Services is a 38-year old wholly indigenous Nigerian agro business with a 50-hectare farm in Oyo state and 3 feed milling plants in Kano and Asaba. ■ The company leverages sales representatives and agents in supplying its products to clients across Nigeria. Its poultry farm operations are branded under the name Funtuna Farms.
	■ Day old chicks ■ Point-of-lay pullets ■ Table eggs	■ A hatchery ■ Automated poultry houses	■ The Amo Farm Seiberer Hatchery (AFSH) is a poultry production farm that primarily produces day old chicks, point-of-lay pullets and table eggs. ■ The company has been operational for over 30 years and has its headquarters in Ibadan, Oyo state. ■ AFSH has a food processing subsidiary, natnudO Foods, under which it sells packaged table eggs and low fat processed chicken.

Source: Company websites, company publications



Olam Group is one of the leading international conglomerates investing in the Nigerian poultry subsector



In 2017, Olam invested in Nigeria’s largest integrated animal feed mill, poultry breeding farm and day-old-chick (DOC) hatchery in Kaduna State.



Olam’s two state-of-the-art facilities which include animal feed mills, poultry breeding farms and hatchery attracted US\$150 million of investment

Closing the supply gap



Olam estimates that poultry meat market in Nigeria could increase up to 10-fold by 2040, provided domestic supply can meet increased demand and prices become more affordable. This would require the poultry feed and DOC supply in Nigeria to grow at over 10% CAGR per year.

Key Successes

Olam currently operates Nigeria’s largest integrated animal feed mill, poultry breeding farm and day-old-chick (DOC) hatchery.



Enhanced domestic poultry production by approximately **8 billion eggs and 100 million kilograms** of poultry meat per year.



Indirectly creates **150,000 to 200,000 rural jobs**

for Nigerians involved in poultry value chain.



Positively impact more than **300,000 smallholder crop farmer** through its demand and local sourcing of raw materials



Trains up to **10,000**

farmers annually in best poultry farming practices.



Olam is collaborating with the International Institute of Tropical Agriculture, Ibadan to supply farmers with high-yield soy seeds, boosting the productivity of soybeans in Nigeria, from below 1.0 metric tonnes per hectare to

3.0 to 3.5 metric tonnes per hectare



Reduced the amount of foreign exchange (US\$150.0 million to US\$200.0 million) per year of spent on illegal, low quality frozen imports

Created internships for around **100 veterinary, aquaculture and agronomy graduates**



Source: Company websites, company publications

c.\$240 million of poultry investments were announced between 2014 to date, c.14% of the packaged food and meats sector

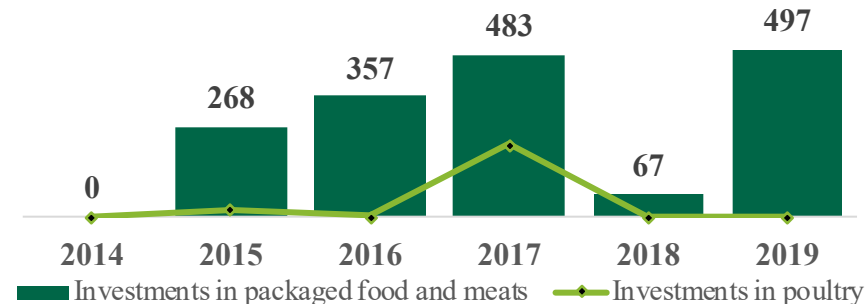
Investment in PFM vs poultry (2014 -2019)*



PFM: Packaged food and meats

*Greenfield investments not included

Investment in PFM vs poultry (2014 -2019, \$mn)*



Investments announced in the poultry sector (2014 – 2019)

Company	Produce	Deal type	Status	Year	Investment (\$)
TGI group (Chi farms)	Poultry meat	Capacity expansion	Announced	2019	Undisclosed
Neovia	Feed	Acquisition	Announced	2018	Undisclosed
Olam Group (Crown farms)	Feed, DOC	Greenfield	Closed	2017	150,000,000
Premier foods (Top feeds)	Feed	Geographic expansion	Announced	2017	28,000,000
Agrited	Poultry meat	Capacity expansion	Announced	2017	33,333,000
Triton group	Poultry	Greenfield	Closed	2017	5,555,000*
Livestock feeds plc	Feed	Public offering	Closed	2016	2,140,000
Dayntee farms	Packaged meat	Private placement	Closed	2016	Undisclosed
TGI group	Poultry meat	Geographic expansion	Announced	2015	13,889,000
Food Concepts Pioneer Limited	Processed meat	Acquired	Closed	2015	7,000,000
Total					239,920,000

Source: Capital IQ, KPMG Analysis

*Includes investment in aquaculture



06.

Applicable incentives and regulatory agencies

Nigeria provides numerous tax incentives that are attractive to investors in the poultry subsector

Agribusiness is potentially tax free.

The payments of minimum tax by companies that make small or no profits at all do not apply to agro-allied business

Zero duty on equipment

All agricultural and agro-industrial machines and equipment enjoy zero percent (0%) duty

Agricultural Credit Guarantee Scheme Fund (ACGSF)

Up to 75% guarantee for all loans granted by commercial banks for agricultural production and processing

Pioneer Status

Production and processing of poultry qualifies for pioneer status; consequently, there is 100% tax-free period for 5 years or projects into processing of agricultural produce.

Tax relief for Research & Development

Agro-allied industries that attained minimum levels of local materials sourcing & utilisation enjoy tax credit

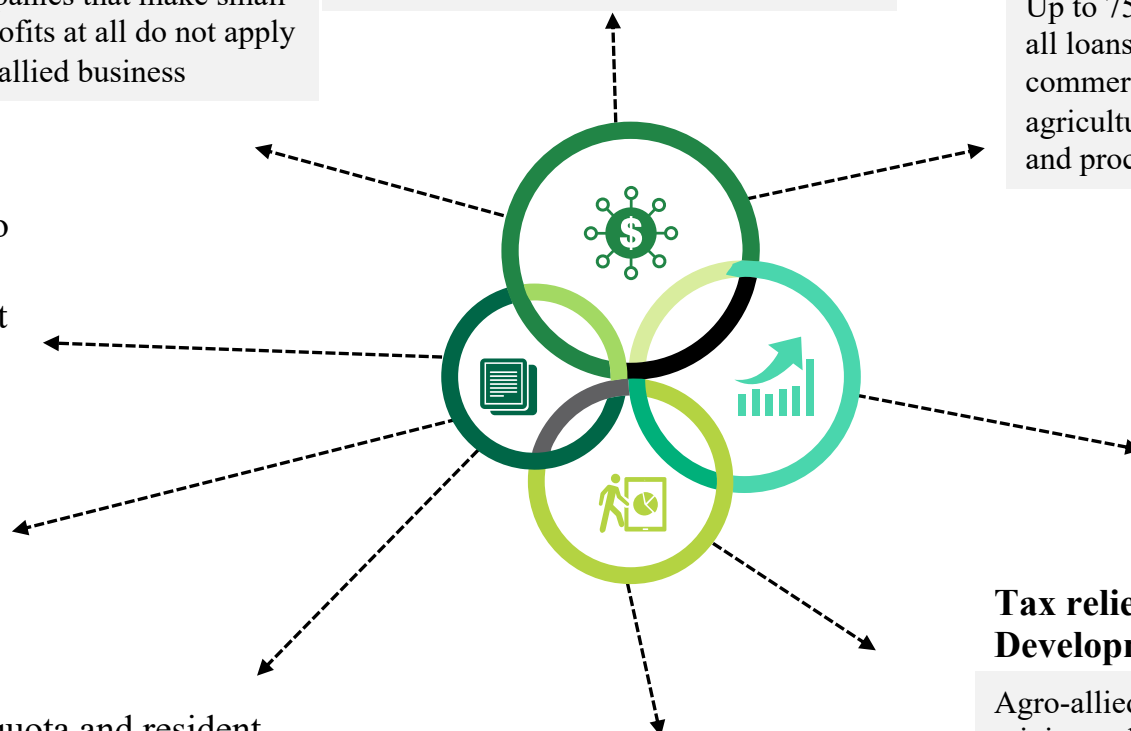
No taxes on Personal remittance quota

Personal remittance quota (PRQ) for expatriate personnel, free from any tax imposed by any enactment for the transfer of external currency out of Nigeria.

Expatriate quota and resident permits in respect of expatriate personnel engaged by agro-allied companies.

Agro-allied plant and equipment enjoy enhanced capital allowances of up to 50%

Companies in the agro-allied business do not have their capital allowance restricted. It is granted in full i.e. 100%



The Nigerian Investment Promotion Commission Act allows 100% ownership of companies by foreigners, while the Foreign Exchange Miscellaneous Act, guarantees 100% Repatriation of Capital, Profit, & Dividends through authorised means.



SON and NAFDAC are some of the most influential regulators encouraging investment in Nigeria’s poultry subsector

Regulator	Description
 Standards Organisation of Nigeria	▪ Apex standardisation body in Nigeria. It aims to promote consumer confidence and global competitiveness of Nigerian products and services through standardisation and quality assurance. Read more at https://son.gov.ng/
 National Agency for Food and Drug Administration and Control	▪ Established to regulate and control the manufacture, importation, exportation, distribution, advertisement, sale and use of regulated products. Read more at https://www.nafdac.gov.ng/
 FMARD, Department of Animal Production	▪ Coordinates livestock development policy and interventions to attain self-sufficiency in production and processing of livestock products to meet local demand and for export. Read more at https://fmard.gov.ng/
 National Veterinary Research Institute	▪ Parastatal under the Agricultural Research Council of Nigeria that produces animal vaccines and veterinary products. Read more at http://www.nvri.gov.ng/
 Nigerian Institute of Animal Science	▪ Regulates animal husbandry practices for increased profitability and improved systems that embrace environmental sustainability and ensure high quality and quantity produce. Read more at https://www.nias.gov.ng/
 Consumer protection	▪ The apex consumer protection agency in Nigeria with the mandate to protect consumers by taking both preventive and remedial measures. Read more at http://fccpc.gov.ng/

Source: Institution website and publications



07.

Key next steps

Contacting NIPC

Services to UK Investors

The UK government provides multiple strands of support for UK companies looking to invest in these countries and the broader Africa region.

This includes, but is not limited to:-

- Advice & guidance on market entry, including introductions to country government officials, advice on consultants, any joint venture partners, information on legislative and political risk issues, including managing corruption.
- Financing (debt & equity) including long term patient capital from UK's Development Finance entity – CDC and other development finance institutions
- Overseas Investment Insurance
- Training & linkage development with local input suppliers
- A new UKAid programme, FDI Africa, that will offer transaction facilitation services in due course including for Nigerian investments.

For further information on the full suite of UK support available to your firm please contact:

Department for International Development GrowthGateway@dfid.gov.uk

The DIT Africa Trade Services Unit (TSU) - DIT.Africa@fco.gov.uk

Specific UK officials in Nigeria:

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