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Contact Information

Economist: Rouba Chbeir

rouba.chbeir@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Overall Outlook: The Lebanese F&B Industry

Business Monitor International (BMI hereafter) released its report on Lebanon's Food and Beverages sector (F&B), where it analyses and projects the industry's performance for the period 2018 to 2022. In a nutshell, BMI explains that Lebanon had faced a major political headwind in November 2017 when the Resignation Crisis of the Lebanese Prime Minister Saad Hariri temporarily jeopardized consumer confidence and thus spending on food and drinks.

Nonetheless, in its 2018 industry outlook, the research firm confirms that the withdrawal of the PM's resignation in the aftermath eased tensions on the political front. BMI expects investors to regain confidence over the 5-year outlook to 2022, backed by a projected rise particularly in the local agricultural segment of the food market, an increase in the consumption of non-alcoholic drinks namely hot drinks alongside a new emerging demand on fruit juice, as well as a rise in alcoholic drinks sales.

Food Industry

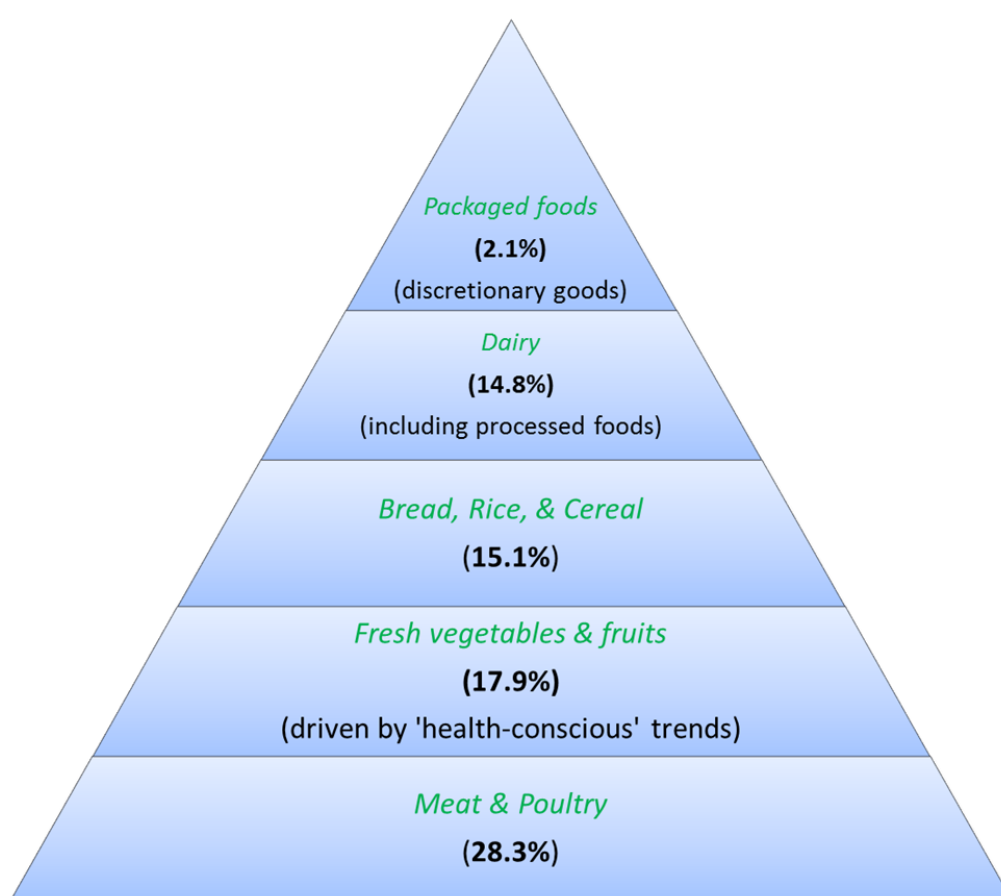
BMI anticipates an "*accelerated GDP growth*" in Lebanon which is expected to boost household consumption over the period 2018-2022, when also coupled with an uptick in the local agricultural output.

Food sales are projected to increase by 7.2% to LBP 9,806.9B (\$6.5B) in 2018; meanwhile, on the medium term (over the next 5 years) food sales will continue to grow but at a slower annual average of 6.5%, with total sales projected at LBP 12,628B by 2022. Despite the national and regional giddiness on the security front and the 1.5M influx of Syrian refugees, BMI emphasizes that the upper middle class, Lebanon's dominant income level, is risk-averse vis-a-vis national economic woes. Moreover, the spending of the upper middle class on F&B compensates for the restricted disposable incomes of impoverished Lebanese families (afflicted by spillovers of the Syrian Crisis)

and that of Syrian low-income households now-residing in Lebanon. Therefore, private consumption will grow at an estimated stable rate of 4% year-on-year (y-o-y) over the 5-year outlook by 2022.

The popular slogans to govern the industry in the next 5 years are “health conscious” and “convenience” foods. Interestingly, BMI identifies two major trends that promise to shape the food consumption patterns in Lebanon, namely “health-conscious” foods and now-popular “convenience” foods for modern, on-the-go consumers. Accordingly, the preferred food choices in a Lebanese diet can be summarized as follows, with the ‘base’ items depicting the core constituents of the Lebanese diet:

Lebanon's Top Food Categories* in 2018



Source: BLOMInvest Bank; BMI

*(in % of total food consumption)

Food sales of “meat & poultry” alone is projected to grow by 7.9% in 2018 and by an annual average of 7.1% by 2022. Meanwhile, sales of “fresh vegetables and fruits” are expected to occupy a larger chunk of Lebanon’s daily diet by 2022, owing it to the “healthy food” campaigns advocated worldwide by the FAO and the World Health Organization (WHO). While the “bread, rice, and cereals” category is projected to grasp the second largest stake of food spending over the next 5

years, “dairy foods” are also expected to gain grounds over the period with the expansion of processed foods.

In fact, Lebanon's food per capita consumption stood at \$1,000 in 2017 to \$1,059 in 2018 and an expected \$1,351.8 by 2022. In details, BMI estimates that the annual per capita consumption of meat (with beef grasping the largest share) is 50-55g per annum. In addition, Lebanon has one of the highest per capita consumption levels of milk in the region, with around 90-100 liters of milk consumed annually.

As for the production of food, the Syndicate of Food Industries claims the sector in Lebanon is the second largest source of exports. Approximately 960 companies, largely small enterprises specialized in the production of a variety of products, nationally produce food products including: canned food, processed food, dairy, and baked goods. However, these producers largely depend on raw materials/foodstuffs imported from Turkey (9%), France (8%), Germany (6%), Argentina and Brazil (4% each) among others as per the Lebanese Customs. Hence, the cost of the products stands prone to the fluctuation of international market prices, which partly curbs the real potential of the segment.

Moreover, BMI stresses on Lebanon's elevated agricultural production capacity given its unique geography. It explains that the agriculture industry alone in Lebanon employs 25% of the country's private sector wage earners, which according to the latest national accounts shows “agriculture and forestry “contributed 2.2% to GDP in 2015. Nonetheless, the sector's real productive capacity is trapped within “*underdeveloped [techniques] and poor management*”, such that 45% of productive land remains unexploited to-date, while a large chunk of farmers' produce is also inadequately stored and thus perishes.

On another note, poultry production rose impressively in Lebanon since 2008 to reach approximately \$350M in 2016. In fact, 10 large poultry producers and around 2,000 poultry farms in the country meet the local demand for poultry and eggs as per BLOMinvest Bank's study on poultry.

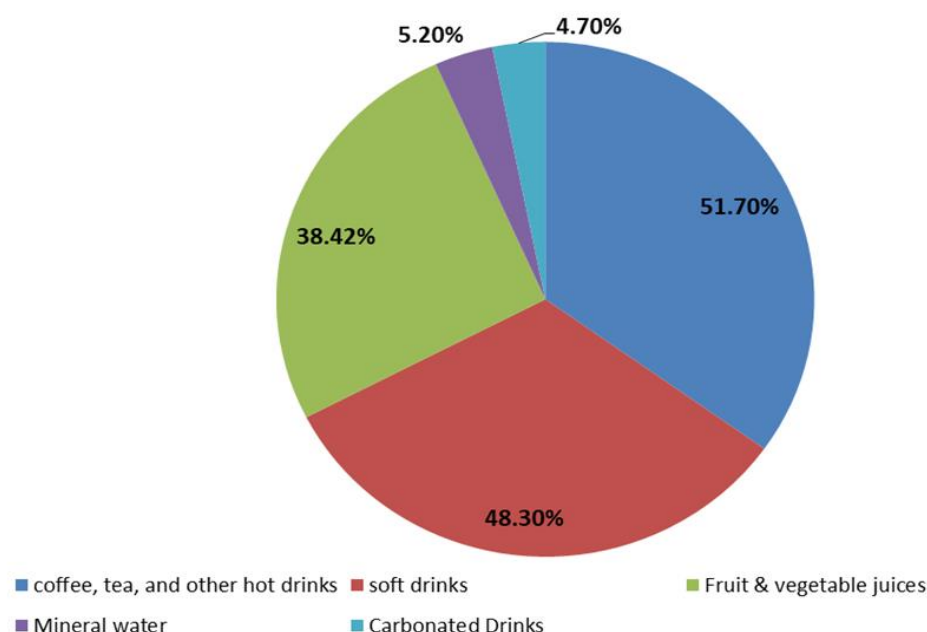
Drinks (beverages) Market

Lebanon's market for drinks is dynamic and BMI forecasts increased competition in the segment over the 5-year outlook by 2022. Drivers of the improvement are: the “healthy food” trend expected to uplift demand and thus sales of “vegetable and fruit juices”, in addition to the well-developed and mature non-alcoholic hot drinks segment that continues to witness product innovation. In fact, BLOMinvest Bank's 2018 study on the [Lebanese juice market](#) actually confirms that the WHO's “**five a day**” campaign advocating the consumption of 5 fruits and vegetables per day (as part of a healthy diet and lifestyle) is reshaping new consumption patterns and driving “vegetable and fruit juice” sales. By 2018, the size of the fruit juice industry ranged between \$130 to \$150M, with Lebanese consuming almost 108M liters to 125M liters.

In details, the growth in the Drinks segment is mostly dependent on the sales of Non-alcoholic drinks, which BMI estimates will grow at an annual average of 6.5% over the 5-year outlook to LBP

1,337.9B in 2022, up from LBP 1,039B in 2017 owing it to product innovation and rising disposable income of households.

Non-alcoholic Drinks: Shares of Sales per Segment by 2022



Source: BMI

“Coffee, teas, and other hot drinks” are the largest category consumed among total non-alcoholic Lebanese drinks sold in the market. The growth of this category is sustained by the emotional element that Coffee in particular adds into the equation. The consumption of Lebanese/Turkish coffee, which is the most popular type composing 65% of total consumption according to BLOMInvest’s report on the [Lebanese coffee market in 2018](#), is a custom and family tradition shared among the country’s households. Indeed, BLOMInvest’s and BMI’s findings coincide, whereby the former calculates Lebanon’s imports of green coffee beans at 24,794 tons, of which 19,835 tons of non-roasted coffee beans are utilized by the top five Lebanese Coffee producers to satisfy the local demand and partially export others. Also within the hot drinks category, sales of ‘green’ tea is expected to amplify by 2022, as consumers affiliate it to a “healthier” drink and a “convenient” one served in on-the-go tea bags.

Nonetheless, BMI forecasts the “juices” segment to grow at a faster pace than the “hot drinks” in the upcoming period. According to BMI forecasts, “hot drinks” sales record an uptick of 41.9% over the 5-year outlook compared to 2017 while the sales of “fruit and vegetable juices” is forecast to add 42.3% over the same period so that it reaches LBP 514,104M by 2022.

In turn, the Lebanese “soft drink” sector is particularly dynamic but will also be driven by demand on the “juices” segment by 2022. As such, BMI notes that the growth in the “soft drinks” sub-sector will be led by “fruit and vegetable juice” segment with demand on healthier beverages rising. In details, BMI’s “soft drinks” sales and “fruit and vegetable drinks” sales in 2017 grasped 49.7% and

37.2% of total non-alcoholic drinks sales, respectively. However, over the 5-year outlook, soft drinks sales share shrank to 48.3% while that of the juices expanded to 38.42% of the total. This is explained by the rising health consciousness of consumers which enhances the popularity of drinks based on fresher, nutritious ingredients.

As for the Lebanese alcoholic drinks market, BMI suggests the segment has room for significant growth. Lebanon is the most liberal among its Arab peers, so consumption of alcohol is higher vis-à-vis the cultural and religious reservations of neighboring countries:

Alcoholic Drinks Consumption (in litres per capita)

	2018f	2019f	2020	2021	2022
Beer consumption	7.5	7.6	7.7	7.9	8.1
Spirits Consumption	1.8	1.9	1.9	2.0	2.2
Wines Consumption	1.0	0.9	0.9	0.8	0.8
TOTAL Alcohol Consumption	10.3	10.4	10.6	10.8	11.1

Source: BMI

Regionally, Lebanon grasps a fair share of the active alcoholic drinks market which attains approximately 10.8 liters per capita in 2017 v/s the UAE which embraces many expatriates yet consumes less at 9.5liters. Nevertheless, compared to the West, Lebanon's Consumption remains low.

Lebanon's alcoholic segment entails 3 key segments. The most popular segment is the "beer segment" which composes >70% of total alcoholic consumption, followed by the "spirits segment" which has room for strong growth by 2022 as per BMI, and lastly, the "wine segment" gathers 36 wineries which produce for local consumption and for export. All in all, BMI estimates Lebanon's total alcohol consumption at 48.7M liters in 2018 (or 10.3 liters per capita consumption). BMI forecasts:

- Beer consumption: to add 6.18% from 2018 to reach 37.8M liters in 2022, owing it to the diversification of beer that will include strong local brands and a growing segment of craft beer.
- Spirits sales: up by 18.8% over the 5-year outlook to 10.1M litres, as new foreign producers' investment uplift and rehabilitate the market's local distribution channels.

Mass Grocery Retail (MGR)

The outlook on the industry growth as driven by the country's Mass Gross Retail (MGR) sector remains modest over BMI's 5-year outlook. Heightened urbanization in Lebanon widens the potential customer base and enhances consumers' exposure to modern lifestyles thereby boosting food consumption especially for western-style foods. Nevertheless, Lebanon's population at 6.1M limits long-term opportunities due to the restricted base of high-spending consumers and a small market, both of which weigh down on the MGR sector. Retailers also face restrictions to their logistics services given the war in Syria is still propagating uncertainty.

On another end, retail which accounts for a large share of the food and drink sales in Lebanon is still widely informal, with the MGR sector yet-to-be rehabilitated to appeal to larger, new international retailers that can help keep the MGR competitive.

According to Business Monitor, over the long term, Lebanon still has an appeal being the commercial link between the West and the Middle East, which will attract some investment to further enhance the performance of the F&B industry. Moreover, multiple domestic chains have expanded across Lebanon over the last year, such as Spinneys growing its stores to reach 17 in 2017, up from 10 stores.

Key Market Challenges

BMI concludes its report confirming that Lebanon's F&B industry has "*significant potential for growth*". However, it highlights a set of structural, institutional, socioeconomic, and technical challenges that urgently need to be addressed, namely: the lack of coordination among different key players, food security hazards which are a major concern given the uncertain outcomes of the still unresolved Syrian conflict, and the resulting rise in poverty level amidst Lebanese households as the refugee population grows. Price inflation of imported food is also a danger as Lebanon relies on food imports to meet the demands of its growing population. Lastly, the underdevelopment of the foodservices sector poses a challenge as the market is dominated by nationals who own and run their independent outlets.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department Bab Idriss,
Weygand Str. POBOX 11-1540
Riad El Soloh Beirut 1107 2080
Lebanon

Rouba Chbeir, Economist

rouba.chbeir@blominvestbank.com

+961 1 991 784

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

research@blominvestbank.com

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