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Abstract

This study draws from some of the conclusions of Business Monitor International/Fitch Solutions on the Lebanese food and beverage (F&B) market in Lebanon in the first two months of 2019, to add its own conclusions and interpretations of the food and of the beverages industry trends and updates in Lebanon. The report also uncovers some of the core market challenges and identifies interesting opportunities as it draws from the input of Fitch solutions and BLOMInvest Bank and the other sectorial research conducted by the latter in Lebanon. The report is also a pioneer as it offers exclusive insights on the Lebanese “wine, coffee and juice industries”, as recently unveiled by BLOMInvest Bank’s studies in 2018-2019 via primary data collection.

Headwinds & a 5-year outlook on Lebanon’s F&B Industry

F&B spending is attached to national growth and household income. In a nutshell, the Lebanese food and beverage (F&B) industry is tightly linked to the country’s economic growth, given national prosperity feeds into household consumption and therefore dictates spending on food and drinks. The F&B industry also operates “in sync” with the tourism sector, so regional uncertainty can greatly impact Lebanon’s F&B market, especially knowing Arabs are still Lebanon’s largest spenders constituting 37% of total tourists in the first two months of 2019.

Multiple headwinds in 2018-2019 slowed down the Lebanese economy and hindered the performance of its growth drivers. In fact, Lebanon held its first parliamentary elections in 5 years during May 2018, but political rivalry hindered the formation of a new government and triggered a political stalemate that lasted for 9 months. In the meantime, regional geopolitical tensions arose and the Gulf economies witnessed an economic slowdown, while Lebanon’s growth engines also

witnessed a slowdown by H2 2018 with rising oil prices further inflating expenditures of the oil-importing economy. By end-January 2019, a new government was formed, whose prime responsibility was to:

- Restore Lebanon's access to markets (capital) and
- Push for urgent "economic reforms", both of which is expected to boost F&B spending.

Nonetheless, Business Monitor International (BMI) remains optimistic on Lebanon's F&B prospects by 2023. The leader research firm, BMI, now acquired by Fitch Solutions, maintains its optimistic stance on the F&B industry outlook in Lebanon over the medium term. It explains the "healthy scope for future growth" in the industry, as it expects economic improvements to boost household consumption and thus food and drink expenditures by 2023.

The expenditure of Lebanese on "food and non-alcoholic drinks" is forecast to grow on the medium term. In its 2019-2023 industry outlook, Fitch Solutions anticipates Lebanon's economic growth in 2019 will be "higher than in the previous year and inflation [will] moderate from 4.8% on 2018 to 3.5% in 2019". This will lessen the downward pressure on consumers' purchasing power, which leaves Lebanon's F&B 5-year outlook up to 2023, optimistic. In turn, households' spending on "food and non-alcoholic drinks" is expected to record a yearly 7.2% uptick to reach LBP 11,626M (\$7.7M) in 2019. Moreover, Fitch projects the spending will climb further up by an annual average growth rate of 6.3% to LBP 14,746M (\$9.8M) in 2023.

Lebanon's Food Industry

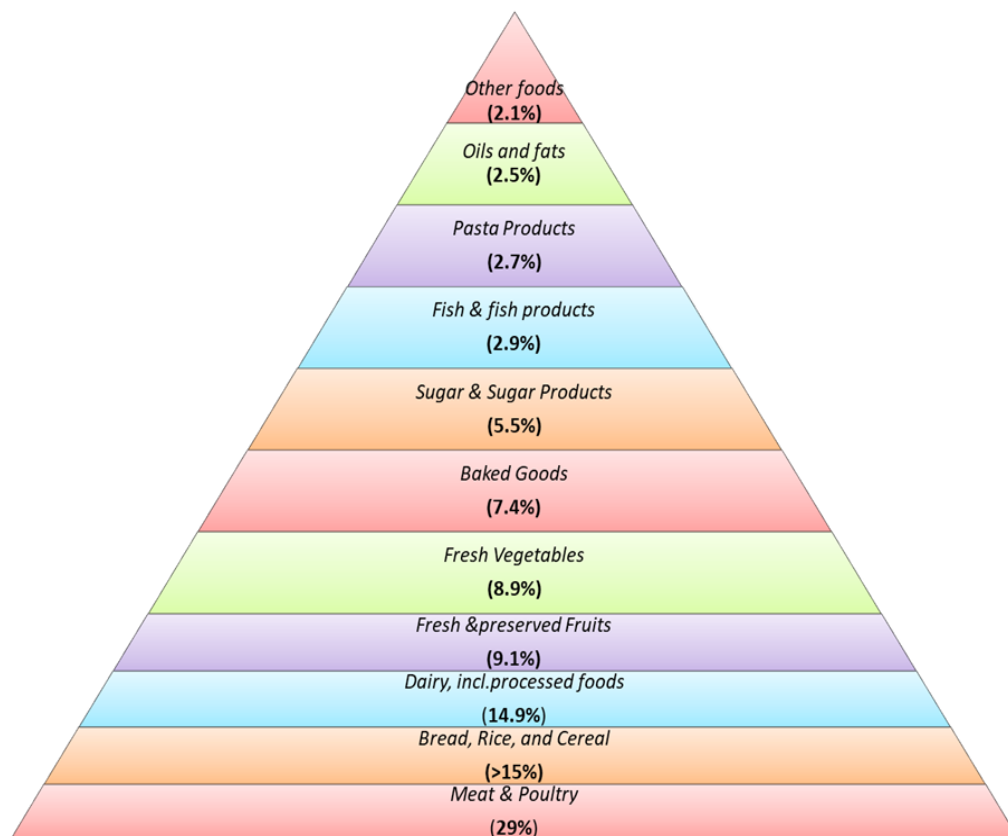
Lebanon's "food per capita" consumption is estimated at \$1,125 in 2019, up by an annual 6.3% and it is expected at \$1,432 by 2023. In details, Fitch estimates the annual per capita consumption of meat (with beef being the star item) is 50-55g per annum. Moreover, Lebanon also captures the one of the highest per capita consumption levels of milk in the region, consuming 90-100 liters of milk consumed annually.

Food sales are projected to grow by 7.2% to LBP 10,512B (or \$6.8B) in 2019. Nonetheless, food sales will slightly grow on the medium term (over the next 4 years), but will record an annual average growth of 6.3% to each LBP 13,333B (\$8.3B) in total sales by 2023. Despite the national and regional security and political uncertainty, including the large refugee influx now part of Lebanese consumerism, Fitch Solutions explains that the upper middle class remains Lebanon's dominant income level. As such, the latter compensate for the impoverished households' consumption and that of Syrian low-income households in Lebanon. Against this backdrop, private consumption is forecast to grow at 4% year-on-year (y-o-y) over the 5-year outlook.

Meats and poultry are the top consumed foods in Lebanon, but fruits and vegetables will compose an essential part of Lebanon's daily diet. Lebanon's food sales of meat and poultry alone hit \$2B in 2019, compared to \$205k on "fish" for example. Yet, Fitch projects the average growth of meat consumption to slip from 7.7% y-o-y in 2019 to 5.3% by 2023. This can be largely attributed to

the international “health-conscious” trend still dominating the market which will drive higher consumption levels of vegetables and preserved fruits on the long run. Together, fruits and vegetables are projected to grasp a stake of 18% of total food sales in 2019 (equivalent to \$1.9M in food sales), which further reflects they are an essential portion of Lebanon’s daily diet.

Shares of the Food Categories Consumed in Lebanon



Source: BLOMInvest Bank; Fitch Solutions(BMI)

(Note: Calculated in % total food sales forecast in 2019)

Rice is a primary food in the Lebanese diet, but dairy products inclusive of processed foods are gaining thrust. While the “bread, rice, and cereals” category is projected to grasp the second largest stake (15%) of food spending (approx \$1B in food sales) over the next 5 years as per the illustration above, rice alone is forecast to constitute 12.5% of 2023’s total food sales. However, “dairy foods” are also expected to gain grounds over the period, with the expansion of processed foods.

Lebanon’s Beverages Market

Total consumption of alcoholic drinks in Lebanon remains low, while the sales of non-alcoholic drinks are projected to grow. The growth in Lebanon’s drinks segment is mostly dependent on the sales of Non-alcoholic drinks, which *Fitch* estimates will grow at an annual average of 6.34% over the 5-year outlook to \$937M in 2023, up from the estimated \$739M in 2019, owing it to the higher

consumption of hot drinks (coffee and tea among others). These are projected to constitute 50.8% of total non-alcoholic drinks sales in 2019. Meanwhile, alcohol consumption is projected at a low of 60.2M liters in 2019 or 12.7 liters per capita, which lags well behind the Western states’ levels of consumption. Lebanon’s spending on alcoholic drinks is forecast to grow by an annual average growth of 3% in 2019, to settle at \$29M and at \$33M by 2023 as per Fitch Solutions.

In fact, BLOMInvest’s study on Lebanese wine confirms the country consumes less wine than its European counterparts. The top category of alcohol consumed in Lebanon is beer, followed by spirits and then wine.

Alcoholic Drinks Consumption (in litres per capita)

	2019f	2020f	2021f	2022f	2023f
Beer	9.7	10.5	11.4	12.4	13.7
Spirits	1.6	1.7	1.8	1.8	1.9
*Wine	1.4	1.2	1.2	1.2	1.1
TotalConsumption	12.7	13.4	14.3	15.4	16.7

Source: Fitch Solutions

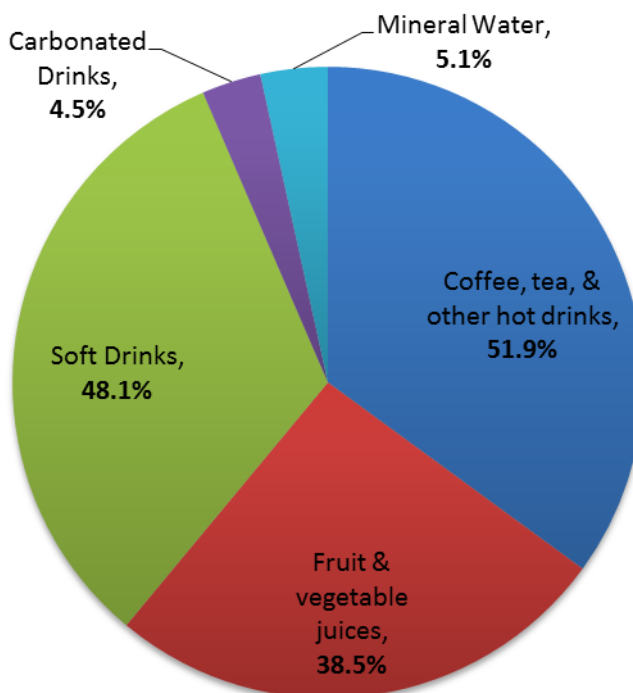
**BLOMInvest conducted its own market study on Lebanese Wine in March 2019; Key findings shared hereafter.*

Lebanon consumes the most alcoholic drinks among its regional peers, yet its alcohol consumption lags behind Europe’s. Even though Lebanon is the most liberal among its Arab peers, Lebanon’s wine consumption for example compared to Europe’s is very low. In details, [BLOMInvest’s market study on Lebanese Wine](#) (Mar 2019) highlights the views of wine connoisseurs and key market players. While L’Union Vinicole du Liban confirms that “*Lebanon consumes around 1.7-2 liters per annum*”, wine experts interviewed corroborate that the consumption in France is around 50 liters and approx 30 liters in Germany. However, the experts interviewed shared a reassuring view that wine consumption in Lebanon is on the rise, given more Lebanese are consuming this unique, good quality wine. In addition, local players, some visionary leaders, are always experimenting on to improve quality and price-rapport.

Being a multi-confessional country, Lebanon will not reach the European levels of alcohol consumption. In fact, a large chunk of the Lebanese population does not consume alcoholic drinks. Even when taking into account this fact, the alcoholic drinks consumption in Lebanon continues to lag behind western countries mainly due to lower purchasing power in the cedars country. Actually, in terms of total alcohol consumption, Lebanon may lag behind Europe because a traditional drink consumed is “Arak”. Yet, this drink is mostly produced in households or by individuals and only a

small portion of it enters into the retail market. Hence, Arak’s consumption is not quite captured in the overall alcohol consumption and thus in the “sprints”-subcomponent above.

Non-alcoholic Drinks: Shares of Sales per Segment by 2023



Source: BLOMInvest Bank; Fitch Solutions

In turn, “Hot (non-alcoholic) drinks” are expected to grow by an average annual growth of 6.92% by 2023, driving up sales of non-alcoholic drinks. Fitch solutions projects the sub-segment of hot drinks, including “coffees, tea, and other warm drinks” in Lebanon to grasp a stake of 50% (equivalent to LBP 565B) of total non-alcoholic drinks’ sales in 2019, up from LBP524B in 2018. Fitch also expects the coffee and tea sales to constitute up to 52% of total non-alcoholic sales (or LBP732B) by 2023. This can actually be attributed to two trends:

- Coffee is a social/family tradition. Its consumption is a prime expression of renowned Lebanese hospitality. It composes 65% of total coffee consumption in the country as per BLOMInvest’s report on the [Lebanese coffee market in 2018](#).
- Lebanese consumers prefer new types of tea nowadays: herbal & fruity and substituting popular loose tea to tea bags out of “convenience” and “healthier” choices.

The ‘health-conscious’ trend is expected to drive demand and sales on “vegetable and fruit juices”. Fitch Solutions projections confirm that “vegetable and fruit juice” sales are expected to rise by a yearly average growth of 6.94% to LBP544B by 2023. 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 (a healthy diet and lifestyle) is reshaping new consumption patterns. The size of the fruit juice industry according to study ranged between \$130M to \$150M, with Lebanese consuming almost 108M liters to 125M liters.

In turn, the Lebanese “soft drink” sales show a more moderate growth by 2023. Over the 5-year outlook, soft drinks sales share is expected to rise by an annual average growth of 5.7% to LBP 680B by 2023. This lags behind the growth in juices consumption mainly due to the rising health consciousness of consumers.

Key Challenges in Lebanon's F&B Industry & Opportunities

Overall, the F&B industry in Lebanon faces challenges on multiple fronts: internal and external, but there is much room for improvement.

Regional turmoil and the sector's reliance on tourism render the F&B industry vulnerable to shocks. The industry in Lebanon is prone to ongoing market turbulences which are usually linked to political and regional uncertainties. With Arabs being among the largest spenders in the country, any security and/or political shock may directly be reflected on F&B spending in the country. Moreover, Lebanon still lags behind when it comes to diversifying its tourism portfolio, given tourists from Europe and the rest of the world appreciate and look for eco-tourism, medical and religious tourism, among other dimensions like the four seasons which the country offers its visitors. This further shrinks F&B spending from tourists in the country.

The 2018 McKinsey report on Lebanon sheds light on Lebanon's “vicious cycle”, namely corruption, which hampers internal improvement of productive sectors, including F&B. In details, the report emphasizes on persistent corruption and multiple pending laws and legislations related to the country's “business environment” and internal support and lending as laws that could support manufacturer's and farmers' unions remain “stuck” at different stages of the pipeline for years. Corruption creates hurdles in the distribution and/or production levels of food and drinks, as it hampers the empowerment of national producers, players in agriculture, and other national contributors who can contribute a great deal in the F&B industry and the country's self-sufficiency.

Some food-specific challenges include the high imports of F&B goods and the restricted growth potential due to lack of government support. Most of Lebanon's main players in the food industry are small enterprises that operate informally, so attracting foreign investment becomes tricky. This forgoes the opportunity to invest and improve the local technical and financial base of the industry's key players. Besides, the infrastructure (electricity namely), credit facilities, loans with reduced interest rates, tax exemptions, and the basic support for any national industry in Lebanon is rather absent. With some government support, production costs of local market players in the juice industry, wine, and/or coffee would decline, leaving room for their investment in new factories and equipment.

Moreover, the government's ‘sporadic’ monitoring is also a key hurdle to food safety. In fact, 100% of the country's demand for sugar, rice, tea, and coffee are imported, as per Fitch Solutions' assessment on Lebanon. The (low) quality of imported and consumed foods as a result of little

government monitoring jeopardizes the country's food security and food safety. These possibly propagate contaminated foods/meat from conflict-stricken Syria, or low government quality control, unlicensed farms and production companies opening up as refugees settled in.

In its turn, the agricultural sector is underdeveloped but may reap lower costs on the local F&B industry potential if looked after. Lebanon's geography, altitudes, and seasons bestow the country with an elevated agricultural production capacity and potential. However, only 55% of Lebanon's productive areas are being exploited as per Fitch Solutions. So basically, 45% of our productive land remains unexploited to-date, while a large chunk of farmers' produce is also inadequately stored and thus perishes – lack of proper training and technical assistance from the government.

Also, tackling the market structural, institutional, and socioeconomic challenges is key to facilitate F&B products distribution and fair competition. Lebanon's local distribution market can be supported by transparent marketing regulations and official laws aimed to protect local produce. Lebanon's food produce is still dominated by imports. It is also curtailed by institutional and structural hurdles that primarily jeopardize food security and food safety – which are urgent international concerns in F&B. Yet, the government may help protect local producers and market players from foreign products invading the market, especially from neighboring Syria. Moreover, the different key players need to cooperate to address their common food security and food safety hazards.

Price inflation is yet another challenge facing the drinks and foods in Lebanon. Lebanon mainly imports foodstuffs and beverages from France (8% of total imports value in 2018), Germany and Turkey (7% each), UK (6%), the USA (7%) and Italy (5%) as per the Lebanese customs. This exposes the country, as it relies on food imports to meet the demands of its growing population. It also exposes consumers to exchange rate fluctuations, thereby raising the costs of imported goods, all of which partly curbs the real potential of the segment and lowers consumption.

Nevertheless, Lebanon has a strong base in the export-led growth of some F&B products like coffee and wine, if internally supported. According to UVL, the Lebanese wine sector is very recognized and praised worldwide, while local players also export Lebanese coffee to more than 40 countries around the world. "Lebanese Coffee" also generates its producers approximately 80% of total revenues of each market player. Exploiting the current competitive advantages in coffee and wine can perhaps slowly boost local production of wines in terms of price and quality and encourage local consumption of both products. The agro industry also carries a potential for the country to export locally produced "tahini", "halawi", among others.

Moreover, some wine-makers in Lebanon proved to be visionary leaders with promising plans for the local wine industry and thus "friendlier prices" for price-sensitive consumers. In details, Chateau Kefraya and Mr. Ferneini, Chairman at Fleur de Lys & wine connoisseur, believe that incentivizing Lebanese producers to compete amongst each other, especially against imported wines can expand the visions of Lebanese wineries, as well as their production capacity and efficiency. In reference to the Wine study by BLOMinvest, demand for Lebanese wine in 2018, grew by an annual 14.3%, while total imports slipped. In terms of volume, the exports of wine rose by an

annual 14.3% to 2,322 tons in 2018, compared to a yearly 8.8% uptick to 2,031 tons exported in 2017. The evidence is actually the growing increase in exports of Lebanese wine to more than 35 countries worldwide. If the opportunity is exploited properly, the end result would be local players targeting superior quality wines, for better prices and quality to consumers.

Similarly, reducing informal and illegal competition on the huge potential of local Lebanese coffee makers such as Café Najjar, Café Daniel, and Cafe Super Brasil can reduce with government support, and push up Lebanon's F&B revenues. Against this backdrop, the government can assist such promising local producers on different aspects. Besides the infrastructure (electricity namely), credit facilities, loans with reduced interest rates, tax exemptions, and the basic support for any national industry, the government may help protect local producers and coffee market players from foreign products invading the market, especially from neighboring Syria.

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