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Business Monitor International (BMI) recently released a report on Lebanon's Food and Beverages (F&B) sector where the research firm reveals its forecasts for the period 2017 -2021. BMI believes that the Lebanese F&B sector, of which food alone grasps a 90% share of the industry, will remain resilient and will most likely progress at a stable rate over the next five years, despite persisting political and economic downturns.

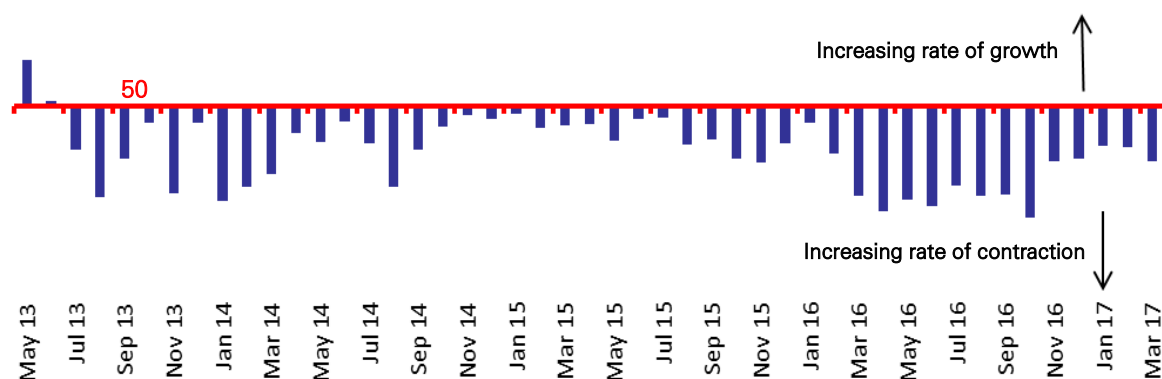
Food Industry

Despite low consumer sentiment, food consumption showed to be to some extent inelastic and resilient to the economic woes, as Lebanon largely benefits from the upper-middle income group being the dominant income level in the economy. Moreover, despite the absence of tourists in Lebanon in the past few years and the stagnant security situation, the increasing number of Syrian refugees led to the rise of food consumption. According to BMI, food sales will grow 7.2% in local currency terms in 2017 and will have a compounded annual growth rate (CAGR) of 6.9% from 2017 to 2021. Also, the slight recovery in the tourism sector in 2016 as well as the Lebanese interest in the Western culture will also lead to a boost in the food and drink industry. In details, fresh vegetables will be the fastest growing category followed by poultry. In fact, BMI estimates the annual consumption per capita of meat in Lebanon at 50-55 g per annum with the main focus on poultry as it is the most affordable. The size of the local poultry market hovers around \$350 million while imports average \$17 million per year, as Lebanon is home to more than 10 large poultry producers and some 2,000 poultry farms.

As for food production, the industry has been suffering for the past few years. This can be reflected by the BLOM's Purchasing Managers' Index (PMI) which reflects the economic slowdown of private sector activity as it was consistently below the 50 points mark for the past 4 years. Moreover, the agriculture sector, the leading market for Lebanese food production, highly suffers from underdevelopment and poor management. The agriculture industry alone employs 25% of Lebanon's private sector wage earners and stands well compared to the region, as the country enjoys big diversification in its agricultural production due to the significant differences in altitude found within the country. Nonetheless, only 55% of the country's productive areas are being exploited despite the fact that this sector is potentially able to make a greater contribution to GDP, where in 2015 it contributed for only 3.75%.

Yet as much as the latter issues deter the development of the industry, they represent great opportunities to be taken advantage of since they suggest that the potential and growth of the sector are still unreached. In that setting, governmental efforts are being provided and the rising health consciousness is likely to play an important role in shaping the tastes and preferences of consumers.

BLOM PMI Historical Readings



Source: Markit, Blominvest Research Department

Drinks Industry

The drink industry in Lebanon holds a dynamic outlook for the upcoming 5 years. The drink industry in Lebanon is mainly divided into two sub-categories, the alcoholic drinks and the non-alcoholic drinks. As such the sector performs under a different setting than the food industry yet shares the same gap between its actual performance and its potential.

The sector growth is mostly driven by non-alcoholic drinks such as the carbonate, bottled water and fruit juice segments. This is mainly due to large part of the population that is Muslim which in turn results in a relatively low per capita consumption of alcoholic drinks. Hence, Tea and coffee for instance are considered relatively mature sub-sectors in Lebanon especially that their consumption is an essential part of the local culture. Thus, most companies have been focusing their product innovation on non-alcoholic beverages. The soft drinks sub-sector growth is expected to continue to be led by fruit and vegetable juice segments. Business Monitor forecasts sales to grow at a 7.3% CAGR through 2021. As for the hot drinks sector, it is expected to continue to strengthen over the medium-to-long term, driven largely by product innovation and rising disposable incomes.

Non-alcoholic Drinks Sales (\$M)

	2015	2016e	2017f	2018f	2019f	2020f	2021f
Coffee, teas, and other hot drinks	280.11	300.96	324.59	350.50	378.06	405.89	433.93
Soft Drinks	279.48	298.87	318.39	338.72	360.72	382.46	403.99
Mineral Water	35.63	37.75	39.23	40.44	41.89	43.15	44.29

Source: BMI

Yet this did not prevent the existence of a large alcoholic drinks' sector in Lebanon, which stands as the biggest in the region. Alcoholic drinks have proven to be inelastic in the country, as despite the deflation in the country the average CPI of alcoholic drinks has been on the rise for the past few years. BMI expects that the alcoholic drinks segment will offer one of the region's most vibrant opportunities, with laws around the

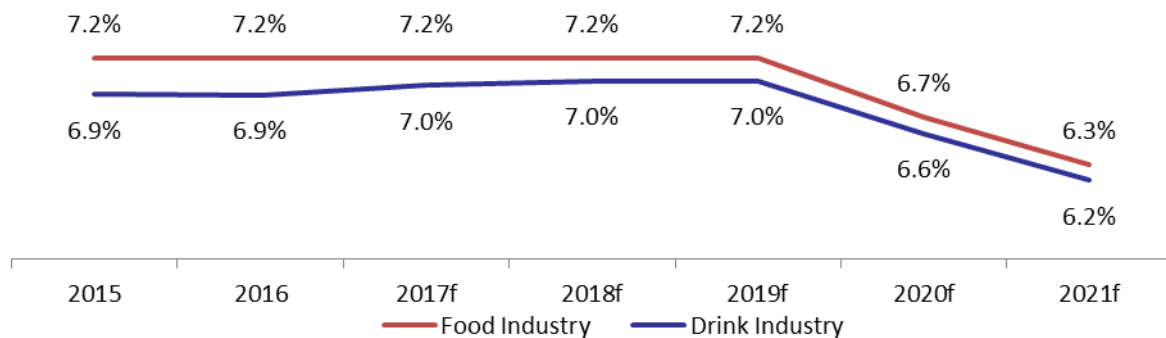
consumption of alcohol less strict. In details, the underdeveloped spirits segment is expected to experience reasonably strong growth over the five year period to 2021, on the back of investment in domestic distributional affiliations by foreign producers. Moreover, the wine industry has been significantly growing throughout the years. In fact, customs data show that Lebanon has been a net exporter of wine in the past 4 years, with a trade surplus amounting to \$5M in 2016.

Alcohol Consumption (Liters/Capita)

	2015	2016e	2017f	2018f	2019f	2020f	2021f
Wine	1.2	1.2	1.1	1	1	0.9	0.9
Spirits	1.9	1.9	1.9	2	2.1	2.2	2.3
Beer	7.9	7.8	7.8	7.9	8	8.2	8.4

Source: BMI

Forecasted Growth Rates for the Food and Drink Industry



Source: BMI

Mass Grocery Retail (MGR) Industry

Another major booster of the industry growth is the continued investment in the country's Mass Gross Retail (MGR) sector, which will help fuel further food consumption. Lebanon's MRG sector is underdeveloped, and does not appeal much for new retailers to enter it as the country holds neither a high-spending consumer base nor a large market. According to Business Monitor, over the long term, investment into the convenience store segment is likely to emerge.

Despite its small population, Lebanon holds much strength that if used efficiently, should contribute to improve further the performance of the F&B industry. Specifically, the large Lebanese diaspora spread around the world offers great opportunities for food and drinks producers to export to these markets, increasing by that the growth capacity of the industry. Moreover, the performance of the industry will be backed by the tourism sector, the youthful population and the expected rise in income.

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