

June 28, 2017

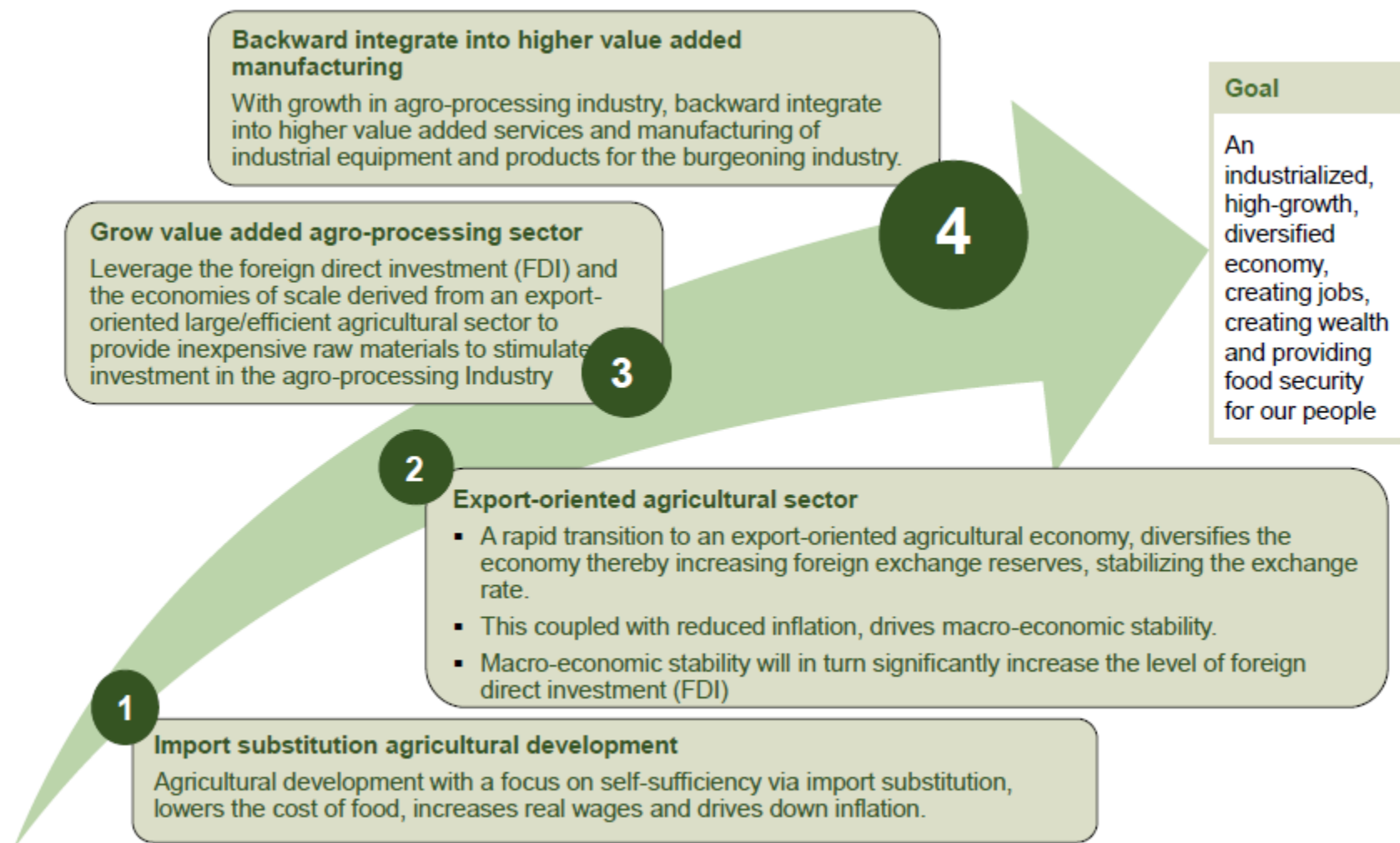


## Attracting Investment into the Agricultural Sector



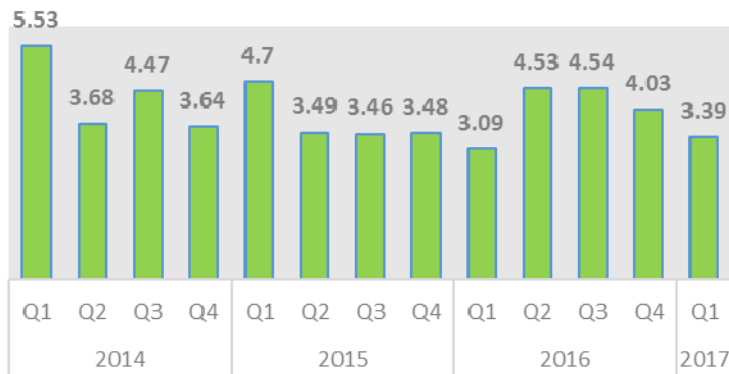
© Copyright 2017.  
Sahel Capital Agribusiness Managers Limited.  
Confidential. Not for further reproduction or distribution.

# Agricultural transformation is not only about food – it is also about the economy

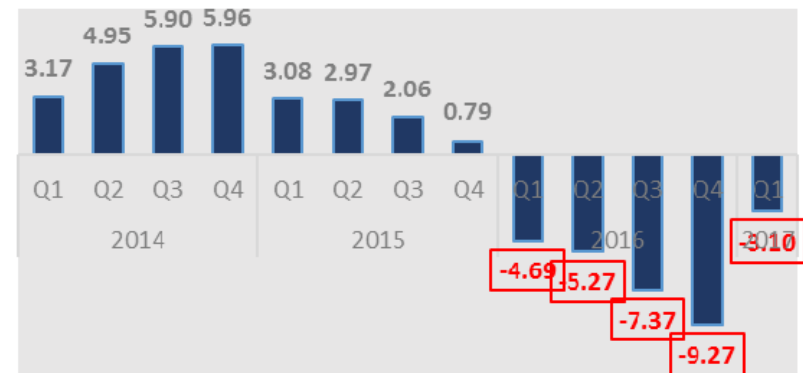


# Nigeria GDP growth mix

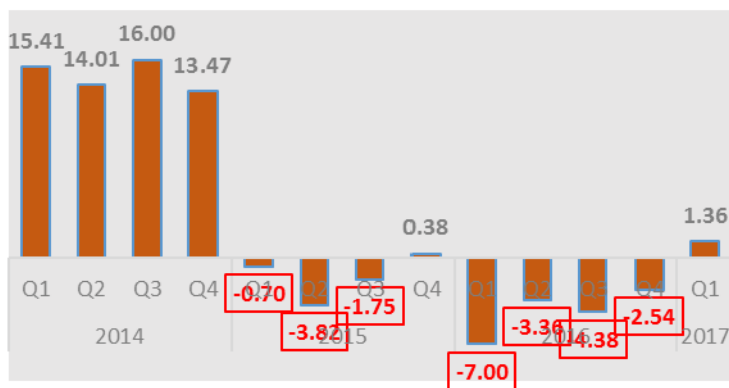
### Agriculture Sector Real Growth: Q1 2014-Q1 2017



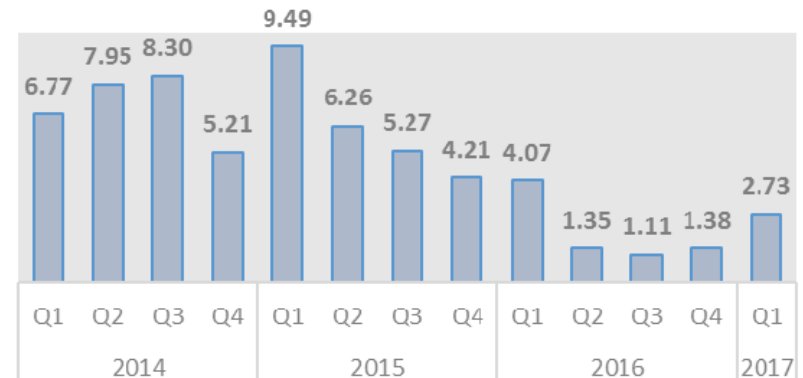
### Real Estate Growth



### Manufacturing Sector Real Growth: Q1 2014-Q1 2017

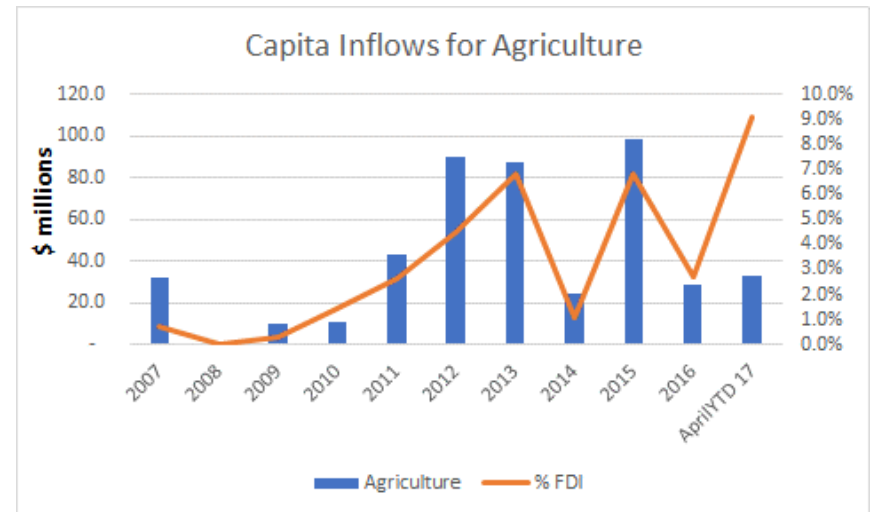
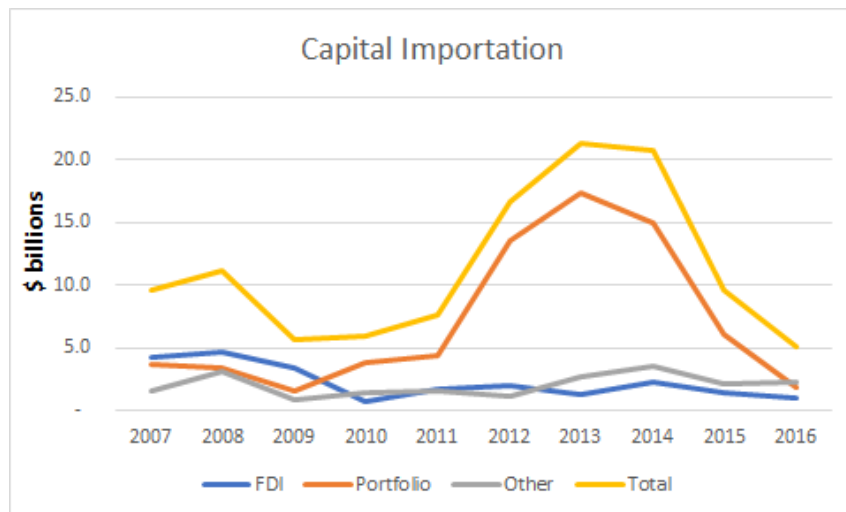


### Information and Communication Sector Growth



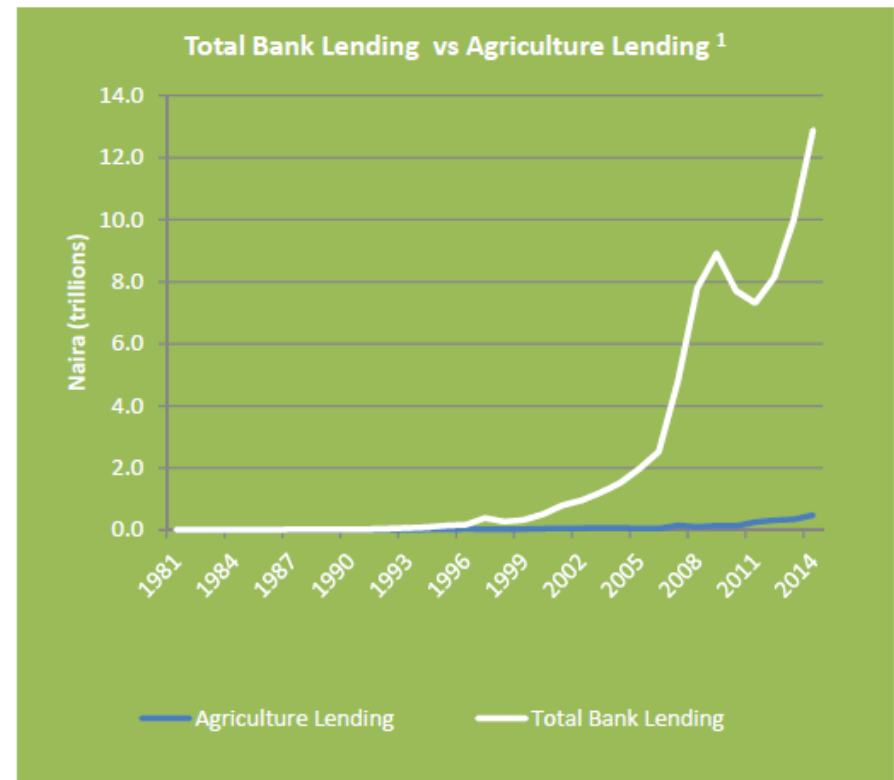
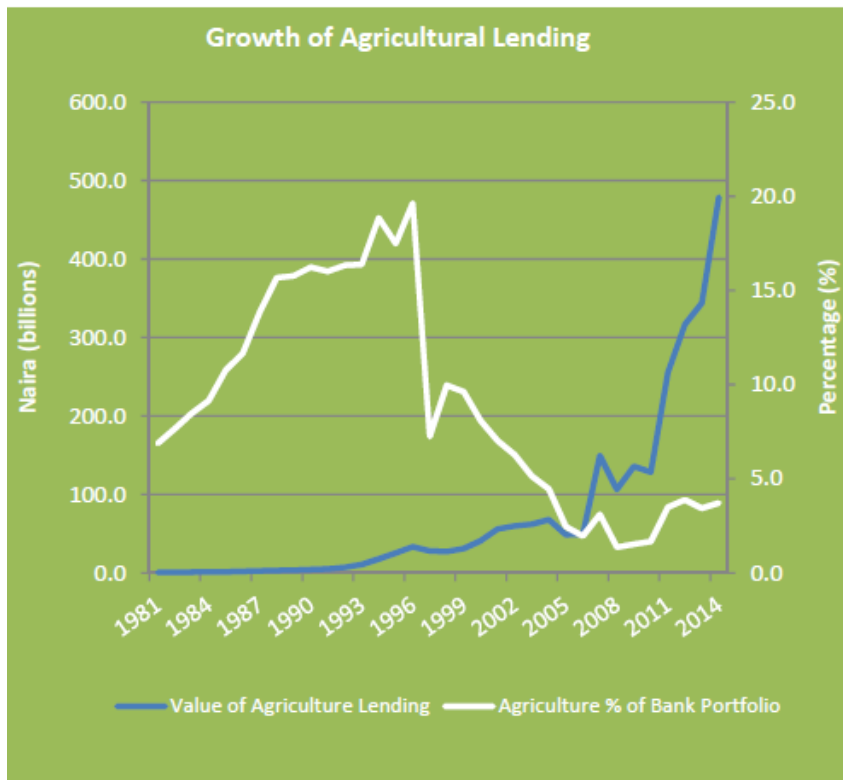
## Over the past 10 years there has been a gradual increase in agribusiness investments in Nigeria

- Over \$113 billion in foreign investments between 2007 and 2016.<sup>1</sup>
  - \$70.5 billion were portfolio investments; \$22.7 billion was FDI; and \$20.3 other trade.
  - About \$427 million was geared towards agribusiness related investments.
  - Agribusiness inflows was approx. 1.9% of FDI during the past 10-years versus approx. 4.1% of FDI during the past 5-years
- Of food and agribusiness related investments, the preponderance of the investment went to activities outside the major cities in Nigeria.
- However, even with this increase in investment, over \$5 billion is still needed to provide required financing for farmers and agribusinesses.



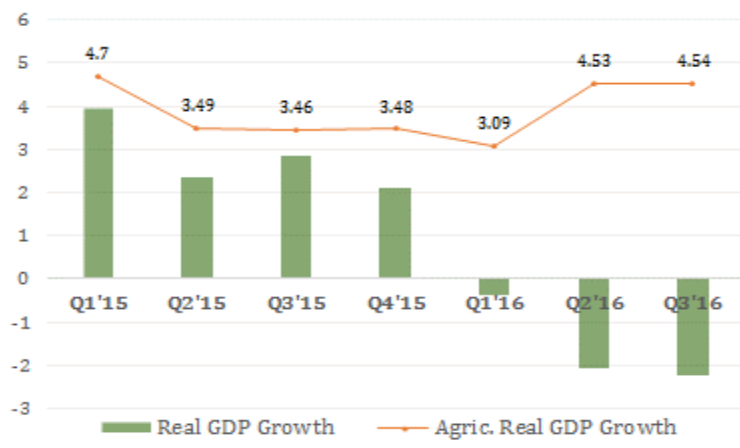
## There has also been an increase in bank lending to the agricultural sector, though not as fast as lending to other sectors

*Agriculture lending has declined as a % of overall bank lending over the past 30-years, but has increased as a % of lending over the past 7-years*

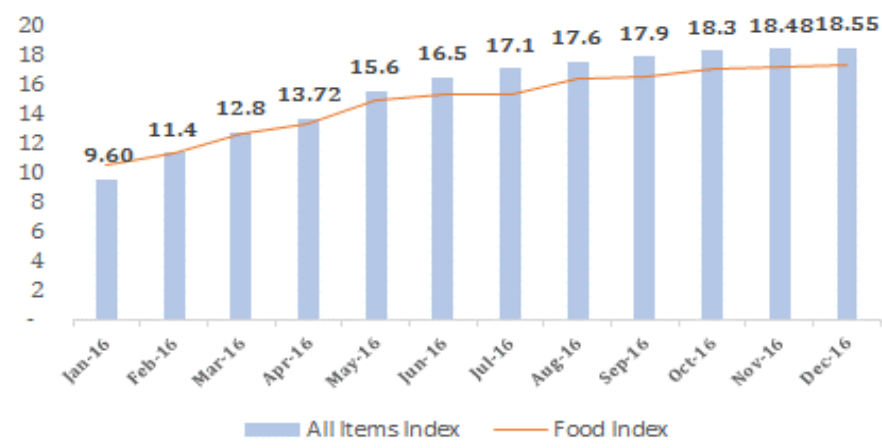


# What macro-economic challenges do investors have to deal with?

**Sectoral Real GDP Growth (%) (Year-on-Year)**



**Consumer Price Index (CPI): Year-on-Year Change (%)**



## NGN:USD FX Trends<sup>1</sup>

Year End	2014	2015	2016	2017	2018	2019	2020	2021
	<i>Historical</i>			<i>Projected</i>				
FX Rate	160.0	200.0	315.0	400.0	420.0	441.0	463.1	486.2
Depreciation		25.0%	57.5%	27.0%	5.0%	5.0%	5.0%	5.0%

# A broad range of policy issues impact attractiveness of investment in Nigeria's agricultural sector

---

Area	Comments
1. <b>Security</b>	Security concerns in North Eastern Nigeria have resulted in: (1) dramatic reductions in crops planted and harvested in the region, (2) higher transportation costs from northern Nigeria, (3) reduced willingness of Nigerian and foreign professionals to work in selected parts of the country, and (4) significantly reduced trade between Borno and Niger/Chad.
2. <b>Roads</b>	Poor rural roads and key interstate roads (1) increases transportation cost, (2) makes farm management difficult, and (3) increases time to market which impacts perishable crop.
3. <b>Power</b>	Non-existent power in many rural communities and potentially higher diesel prices (versus urban centres) increases cost of local processing.
4. <b>Health</b>	Poor health care and low nutrition in rural communities impacts productivity of workers and life span of individuals. NAFDAC policy implementation and operations impacts agro-processors.
5. <b>Central Bank (FX)</b>	<ul style="list-style-type: none"> <li>• Subsidized lending via CACS to sector has in general been positive, though unclear if it has increased overall lending to the sector or just substituted commercial credit.</li> <li>• Most companies import some portion of their raw material requirements. FX restrictions have significantly squeezed manufacturers and agro-processors.</li> </ul>
6. <b>Customs / Import Tariffs</b>	Misapplication of customs duties on agricultural equipment imports, delays at the ports, inconsistent tariff policies, and smuggling impact ability of agribusinesses to thrive.
7. <b>Water</b>	Irrigation strategy for dry season farming. Also, flood prevention for downstream and riverine communities.
8. <b>Insurance</b>	Agricultural insurance key to enabling farmers and agribusinesses mitigate risk.





# Where are the opportunities?

- Across a broad range of sectors





# Who are the Investors?

Investor	Comments
1. Entrepreneurs	
2. Domestic Strategic Investors	
3. International Strategic Investors	
4. Private Equity Funds and Financial Investors	
5. Pension Funds and Asset Managers	<p><i>Investing in listed food and agribusiness companies</i></p>

# Sahel Capital Overview

---

## PRIVATE EQUITY

Sahel Capital Agribusiness Managers Limited is a private equity firm focused exclusively on the Nigerian agribusiness sector.

## CONSULTING

Sahel Capital Partners & Advisory Limited conducts research, analyses policies, develops strategies, and implements programs that promote sustainable food security and improved nutrition.



# Sahel Capital Investment Screening Criteria

---

- Potential investee companies should be high growth SMEs within the agricultural sector, and focused in some form on one or more of (1) food security, (2) domestic food demand, (3) import substitution, and (4) value chain linkages.
- **Business Related Eligibility Criteria**
  - Track record of strong performance (*> 3 years of operating history and > N300 million in turnover*);
  - Significant growth potential;
  - Competent entrepreneur or management team;
  - Strong governance and ethical business practices;
  - Competitive market advantage;
  - Plausible investment exit scenario for FAFIN; and
  - Clear ability for Sahel Capital to add value to the company's operations.
- **Development Impact Related Eligibility Criteria**
  - Employment creation and revenue generation for youth, women, and small holder farmers.
  - Inclusion of smallholder farmers within supply chain or as customers; ability to strengthen food security; and ability to fix or increase the efficiency of value chains.
- FAFIN is not focused on start-up or early stage companies. It will only consider early-stage investments where the management team can demonstrate relevant sector expertise, and has a proven strong track record of running successful companies within the sector.

# Sahel's investment strategy features several key focus points

---



- **Food security:** Nigeria's population is expected to grow by +70 million over next 10 years. Opportunities that address this need are of particular interest.



- **Expanding middle class:** Crop and livestock value chains, where demand will be driven by an expanding middle class with stronger purchasing power.



- **Import substitution:** Opportunities where there is concrete demand met by imports, but a commercially viable path to local processing and distribution of products.

- **Value chain linkages:** Targeted investments to improve the efficiency of specific value chains, including opportunities in logistics, cold chain distribution, packaging, and storage.



## Case Study:

### - Integrated Cassava Processing (starch, sweeteners)

---



#### Context:

- Nigeria is the largest producer of raw cassava in the world with 43m MT of raw cassava grown in 2010.
- However, only 15% is processed for industrial use versus 65% in Brazil and 86% in Thailand (*we eat most of our cassava*).
- Key historical constraints are related to **scale of farming** (*85% smallholders in Nigeria vs. 60%-65% elsewhere*) and **crop yield** (*smallholders 12MT/ha in Nigeria vs. 45MT/ha commercial farmers in Thailand*).

#### Opportunity:

- Starch and sweeteners sold to FMCG customers including Nestle, Unilever, and Coca-Cola; substituting for imported corn starch and glucose syrup.
- Also opportunities with high-quality cassava flour (“HQCF”) and cassava chips.

# Case Study:

## - Integrated Oil Palm / Edible Oils

---



 SAHEL

### Context:

- In 1960s, oil palm from Nigeria accounted for 43% of world production. Now it only accounts for ~7%.
- Production of palm oil in Nigeria was 930,000 MT in 2013 versus estimated consumption of 1.4 million MT.
- 95% of palm oil produced in Nigeria comes from wild groves and smallholder plantations rather than industrial estates (*2.1 million – 2.8 million ha planted*).
- Yields from groves and smallholders average 1-5 FFB/ha per year versus 12 – 19 FFB/ha/year at industrial estates.

### Opportunity:

- Oil palm is indigenous to Nigeria, and Nigeria is one of the few countries in the world with appropriate climate and land for estate expansion.
- Demand by large population and growing FMCG sector:
  - Food – edible oils, ice cream, margarine, instant noodles, confectionaries.
  - Consumer – soaps, detergents, tooth paste, moisturizers, lip gloss, shampoo.

## Case Study: - Integrated Poultry

---



### Context:

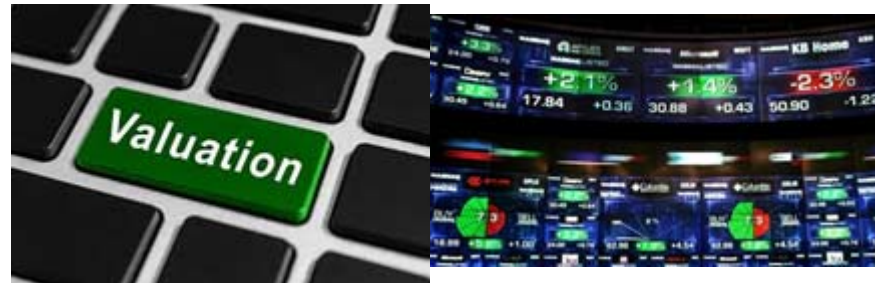
- The Nigerian poultry industry is estimated to be worth ₦80 billion (\$600 million).
- The market is composed of a few large players who are fully integrated, commercialized companies; middle sized companies who source some of their inputs including day old chicks and feed from other companies; and a lot of small holder farmers who rear the birds in their backyard.
- Consumption patterns show that the South West and North West region have the highest total expenditure in poultry production and consumption.
- The local poultry processing landscape is emerging, but still fairly limited to Lagos, Ogun, Oyo and a few players in Kano.

### Opportunity:

- Large and growing middle class consuming more poultry– in 2013: 2.5kg/capita (Nigeria) versus South Africa(34.8kg), and 58.6kg in U.S.
- Need for poultry companies to strengthen domestic supply chains – *focus on improving biosecurity measures and cold chain storage for retail products*

# Agribusinesses seeking capital should play their own part to ensure they are positioned appropriately

---



## Building Blocks







[www.sahelcp.com](http://www.sahelcp.com)

[info@sahelcp.com](mailto:info@sahelcp.com)

