

LOCALIZATION OF CONDENSED MILK

INVESTMENT OPPORTUNITY SCORECARD

FOOD PROCESSING

MARCH 2021

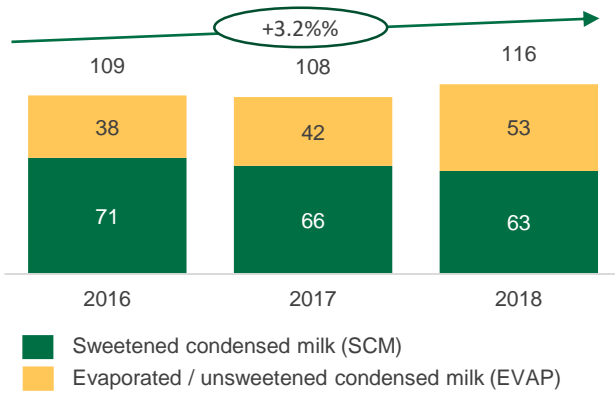


LOCALIZATION OF CONDENSED MILK

OPPORTUNITY'S DESCRIPTION: To establish a processing facility of condensed milk in Saudi Arabia.

DEMAND

KSA IMPORT SIZE, TONS K



INVESTMENT OVERVIEW

INVESTMENT HIGHLIGHTS

- With an initial investment of ~ USD 8 Mn, the facility could achieve an IRR of 12-15% based on
- an increase landed cost of imported EVAP through higher import duties or an equivalent amount of OPEX subsidy;
- localization of 20% of imported EVAP by year 3;
- achievement of 10-12% EBITDA margin by producing EVAP through reconstituted powder milk
- Estimated to create 25-35 direct and 200-250 indirect jobs

VALUE PROPOSITION

- Leverage local support aimed at localizing production of condensed milk, especially EVAP
- KSA has advanced infrastructure, strategic geographical location, and trade agreements with neighboring countries (e.g., Greater Arab Free Trade Area)
- Capitalize on KSA's current exporting capabilities to the MENA region

KEY DEMAND DRIVERS

- While demand for sweetened condensed milk (SCM) is decreasing, a growth in demand for evaporated/unsweetened condensed milk (EVAP) reflects a growing health and wellness trend in KSA with a 17% increase in imported EVAP between 2016 and 2018
- The demand for EVAP has increased in GCC countries as evidenced by a growing demand for EVAP – between 2016 and 2018, there was a 43% increase in EVAP exports from KSA
- Government to support localize food production to ensure sustainability of food availability and price resilience – two factors that are vital for national security

MARKET OVERVIEW

MARKET READINESS AND COMPETITOR ANALYSIS

- Condensed milk is one of the top imported dairy products in Saudi Arabia

Company	Brands	Produced in	Market share
Royal FrieslandCampina		Netherlands	25%
Hochwald Foods		Germany	23%
National Food Industries		Saudi Arabia	23%
Almarai		Saudi Arabia/ Netherlands	17%
Mujally Ahmed Bamujally United Co.	Wadi Fatma and Gloria	Saudi Arabia	6%

GLOBAL TRENDS

- The trends observed in KSA and GCC are in line with global ones that suggest an increasing demand in diversified options of condensed milk including vegan, flavored, and healthier options (i.e., lower sugar content)
- Growing utilization of condensed milk in confectionary items, chocolate, tea, and coffee beverages



LOCALIZATION OF CONDENSED MILK

SUPPLY

SCALABILITY AND LOCALIZATION

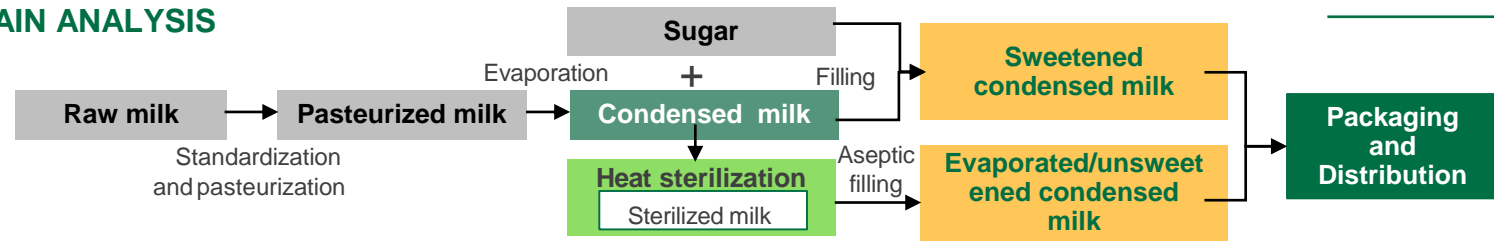
Grade: Low Medium High

- Localization and scalability are possible through ease of access to labour and raw materials (e.g., Almarai, based in Saudi Arabia, has the biggest dairy operations farm in the GCC), developed expertise in efficiency, state of the art technology in production, and a highly developed distribution network
- Consumer trends including increasing prevalence of vegans and health-conscious individuals will drive demand for diversified options of condensed milk allowing the company to scale both in terms of volume and range of products sold

IMPORT DEPENDENCY

Country	% of Saudi imports
Netherlands	25% SCM, 15% EVAP
UAE	38% EVAP
Denmark	21% EVAP
Kuwait	19% SCM
Spain	14% SCM
New Zealand	12% SCM, 11% EVAP

VALUE CHAIN ANALYSIS



Local Producers	✓	✓	✓	✓	✓
Importers				✓	✓

KEY STAKEHOLDERS



ENABLING FACTORS

ENABLERS

- Licensed facility from Saudi Food and Drug Authority to produce condensed milk
- Food parks that link farmers, producers, Halal certification centers, and packages together
- Low financing cost – up to 75% of CAPEX
- Matchmaking with key stakeholders, site visits, location search, and set-up assistance
- The regulatory framework and Government partnerships allowing for exports

COST OF DOING BUSINESS IN KSA

Factor	Ranking Amongst Regional Peers
Electricity tariffs for industrial players	\$48 /MWh
Productivity adjusted wages	\$3.3 /hour
Cost of aluminum (per Metric Ton)	\$1,470
Logistics Performance Index (1 – 5)	3.2
Ease of getting credit (0 – 100)	50

DEFINITIONS

#	SCORECARD SECTION	DEFINITION
1	Market size	Size of market in value/volume in KSA and/or Region (MENA/GCC) covering future projections based on available estimates from published /government sources
2	Demand drivers	A select number of factors that will influence future demand for the related product/service
3	Investment highlights	An overview of key financial metrics summarizing the investment opportunity along with the expected return based on the suggested investment size
4	Value proposition	Summary of key differentiators that position KSA as a strategic choice over other regional/global peers
5	Market readiness	An overview of KSA market structure, market maturity and level of participation by local and global players
6	Competitor analysis	List of the local & international players manufacturing the underlying product in Saudi Arabia and their market share
7	Global trends	Latest business developments within the sector/product category
8	Scalability and localization	Ease of scaling the business across the value chain or into new adjacent products or geographies that would maximize the opportunity's investment returns and the ability and potential to locally manufacture the product and its components
9	Import dependency	An overview of the countries from which Saudi Arabia is importing the product and their value/volume and share in total imports
10	Value chain analysis	The process or activities that would potentially need to be carried out to deliver the underlying product or service
11	Key stakeholders	Government institutions, organizations, and/or authorities that participate or influence the market for the underlying product/service
12	Enablers	Factors that enable investment in the underlying opportunity
13	Cost of doing business in KSA	Key factors that position KSA as a competitive destination for investment in the region. Productivity adjusted wages do not include cost of \$1.23/hour towards annual recurring charges including work permit, resident identity (iqama) and health insurance

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