

TV and fridge manufacturing in Kenya

Investor pitch document

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Executive summary: consumer electronics

There is substantial potential to transform the consumer electronics sector in Kenya and East Africa



Kenya could become a hub for manufacturing consumer electronics in the region



Manufacturing Africa could attract global brands to set up integrated manufacturing capacity in Kenya



Consumer electronics spend is expected to rise to **\$5.1Bn across Kenya and the region¹ by 2030**, driven by an annual **population growth of 3%** and **income growth of 7%**.

TVs and fridges have the highest potential for manufacturing scale-up given their relative market sizes, ease of assembly

There is limited local manufacturing capacity – with existing capacity only in basic assembly

Kenya's **infrastructure, labour productivity and business environment** bolster its strong competitive positioning

Key enabling initiatives required to make local production more cost-competitive than imports include Customs tax waivers, deductions on investments, incentives on utilities and labour, etc.

Two options for consumer electronics manufacturing were explored:

- a) basic final assembly** of TVs and fridges
- b) integrated manufacturing** of TVs and fridges, involving **local manufacture of key components**

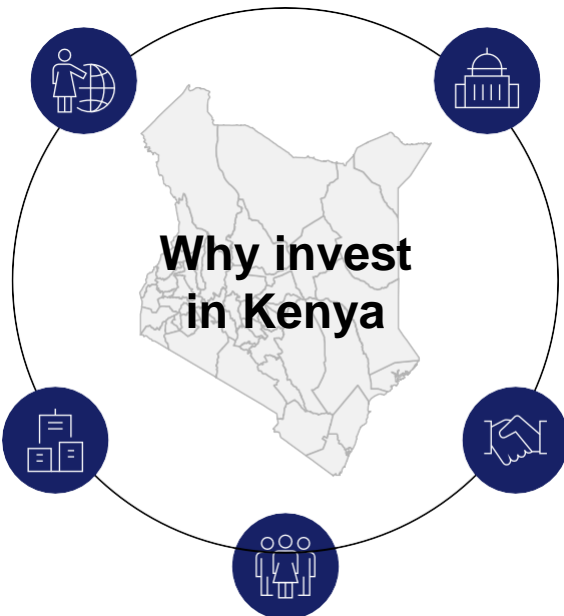
Integrated manufacturing offers a greater opportunity for broader sector development and despite higher investment requirements, offers higher potential for investors given higher margins

An investment of ~\$14Mn to set up integrated TV manufacturing operations, could generate **revenues of ~\$59Mn**, with **EBITDA margins of ~\$11Mn** –leading to **IRR of ~40% over 7 years**

An investment of ~\$18Mn to set up integrated fridge manufacturing operations, could generate **revenues of ~\$53Mn**, with **EBITDA margins of ~\$10Mn** – leading to **IRR of ~24% over 7 years**

1. Kenya, Rwanda, Uganda, Tanzania, Burundi, South Sudan, Comoros, D.R. Congo, Djibouti, Ethiopia, Malawi, Seychelles

Kenya: A go-to market for foreign investment, and a gateway to Africa



Fast growing economy with access to large global market

\$96Bn economy growing at ~6% per annum over the last 5 years

Highest consumer purchasing power in the region, \$4.5k GDP per capita (PPP)

Preferential access to 1.3Bn customers and \$29Tn in GDP through trade agreements



Stable political and macroeconomic environment

Rated #1 in East Africa in the Economist Intelligence Unit's Global Democracy Index

Track record of democratic transitions and policy continuity



Conducive ease of doing business environment

#3 in Sub-Saharan Africa in World Bank's Ease of Doing Business rankings

6 in Sub-Saharan Africa in the Global Competitiveness Index



Young, educated, and competitive workforce

#1 in quality education in Africa according to World Economic Forum ranking with 100% primary completion rate ~\$400/monthly net wage, 25% lower than South Africa's



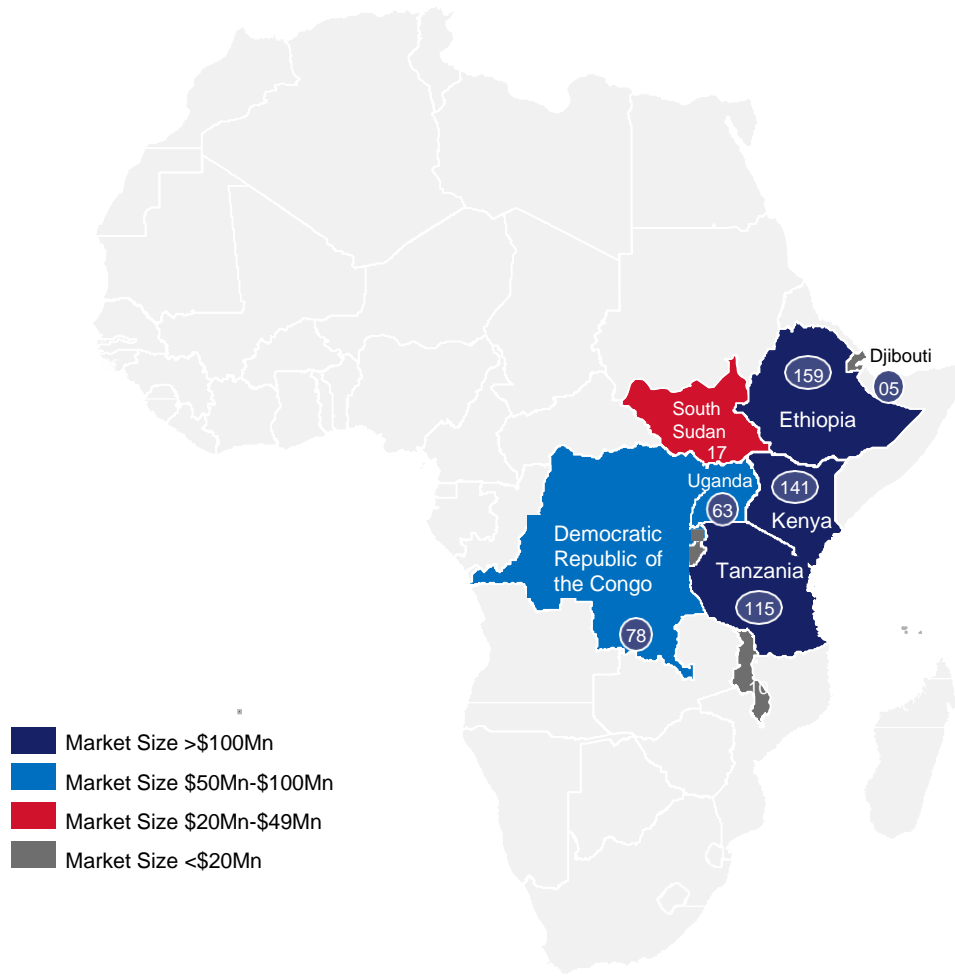
Robust infrastructure

Strong digital infrastructure with 100% Mobile penetration

Strong port infrastructure: largest port in East Africa, with greater efficiency compared to peer ports in the region

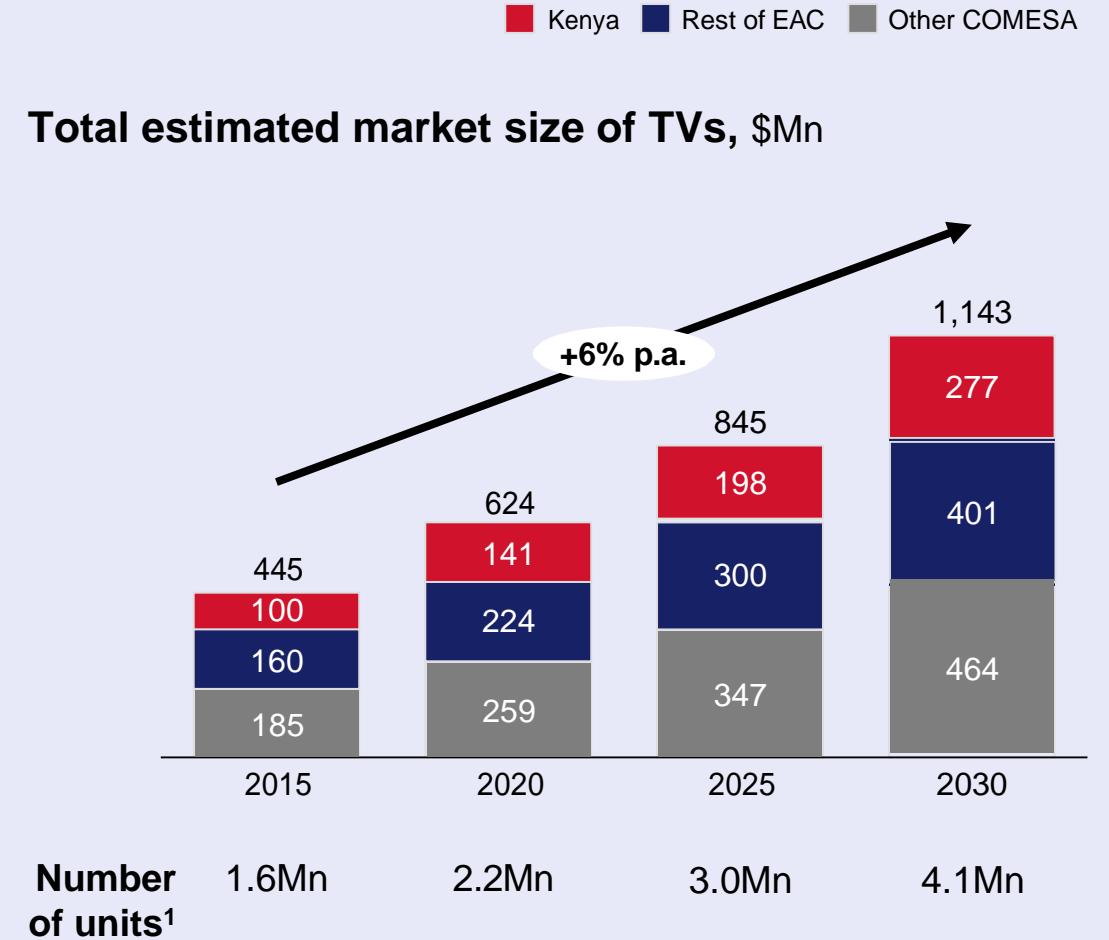
Robust road, rail and air transport links with >\$11Bn in recent road and rail projects

At ~\$141M, Kenya's TV market is about 22% of the regional market









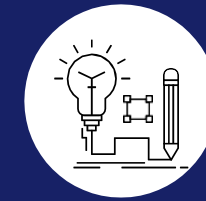
1. Number of units calculated based on an average consumer price of ~\$280/ TV, including TV screens from 24" to screens >65"

Source: Trade data from Kenya Revenue Authority, ITC Trade Data



~75% of the regional market for TVs is dominated by low-end to mid-range TVs

| Categories | Kenya market share | Regional market share | Indicative price ¹ | Example brands |
|------------|--------------------|-----------------------|-------------------------------|---|
| High end | 30% | 25% | \$230-\$250 |   SONY |
| Mid-range | 30% | 30% | \$170-200 |  TECNO  |
| Low-end | 40% | 45% | \$130-150 |   VITRON |



Key insights

~75% of the TV market in the region is controlled by low-end to mid-range brands, owing to the price sensitivity of customers

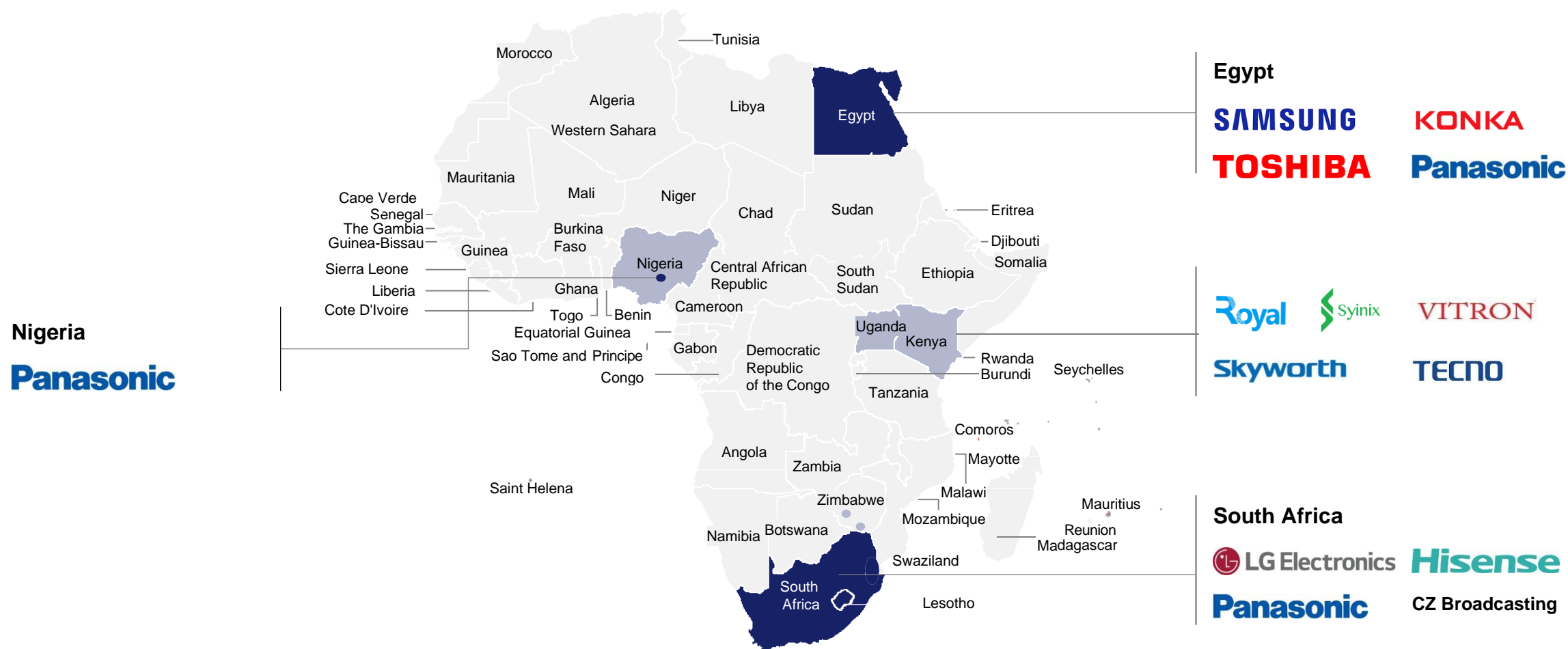
Higher-end brands have a higher market share in Kenya compared to the region due to differences in customer purchasing power

There is limited TV manufacturing capacity in Africa, with only basic assembly capacity in East Africa

NOT EXHAUSTIVE

Assembler Integrated Manufacturer

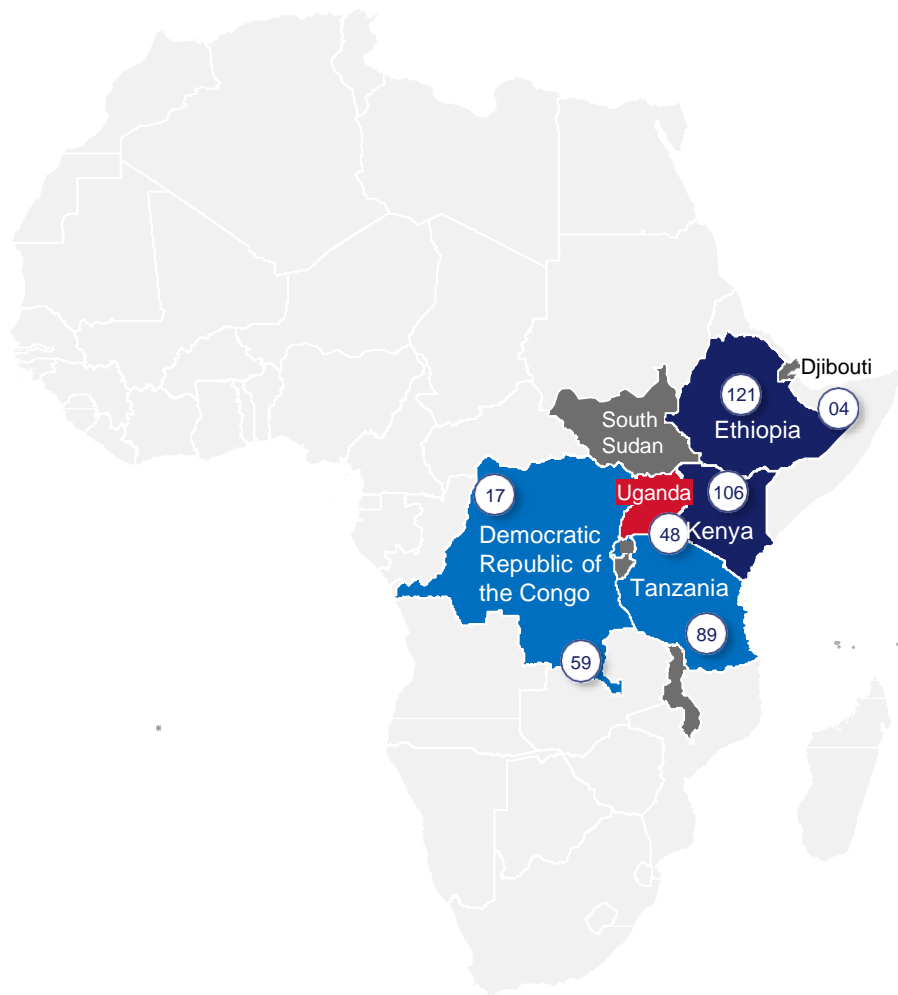
TV manufacturing and assembly plants in Africa



Source: Expert interviews, Press search

At ~\$106M, Kenya's fridge market is about 23% of the regional market

- Market Size >\$100Mn
- Market Size \$50Mn-\$100Mn
- Market Size \$20Mn-\$49Mn
- Market Size <\$20Mn

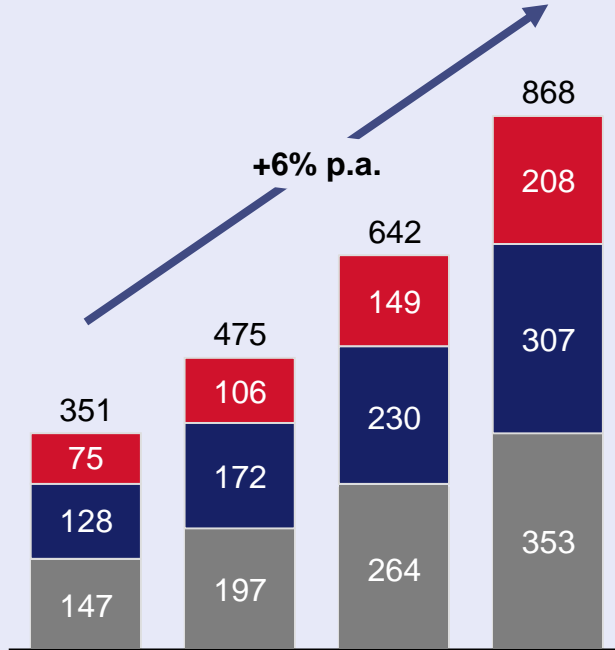


1. Number of units calculated based on an average consumer price of ~\$450/ fridge
Source: Trade data from Kenya Revenue Authority, ITC Trade Data

PRELIMINARY








Kenya Rest of EAC Other COMESA

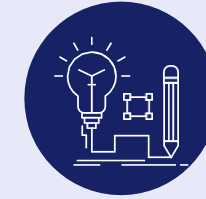
Total estimated market size of fridges, \$Mn



Number of units¹ 0.8Mn 1.1Mn 1.4Mn 1.9Mn

~60% of the regional fridge market is controlled by low-end to mid-range brands

| Categories | Kenya market share | Regional market share | Price range | Example brands |
|------------|--------------------|-----------------------|---------------|--|
| High end | 30% | 40% | \$1000 - 2500 |  BOSCH  LG  |
| Mid-range | 40% | 30% | \$250 - 1000 |  VON HOTPOINT  Hisense |
| Low-end | 30% | 30% | \$180 - 250 |  IceCool  MIKA <small>Inspired Living</small> |



Key insights

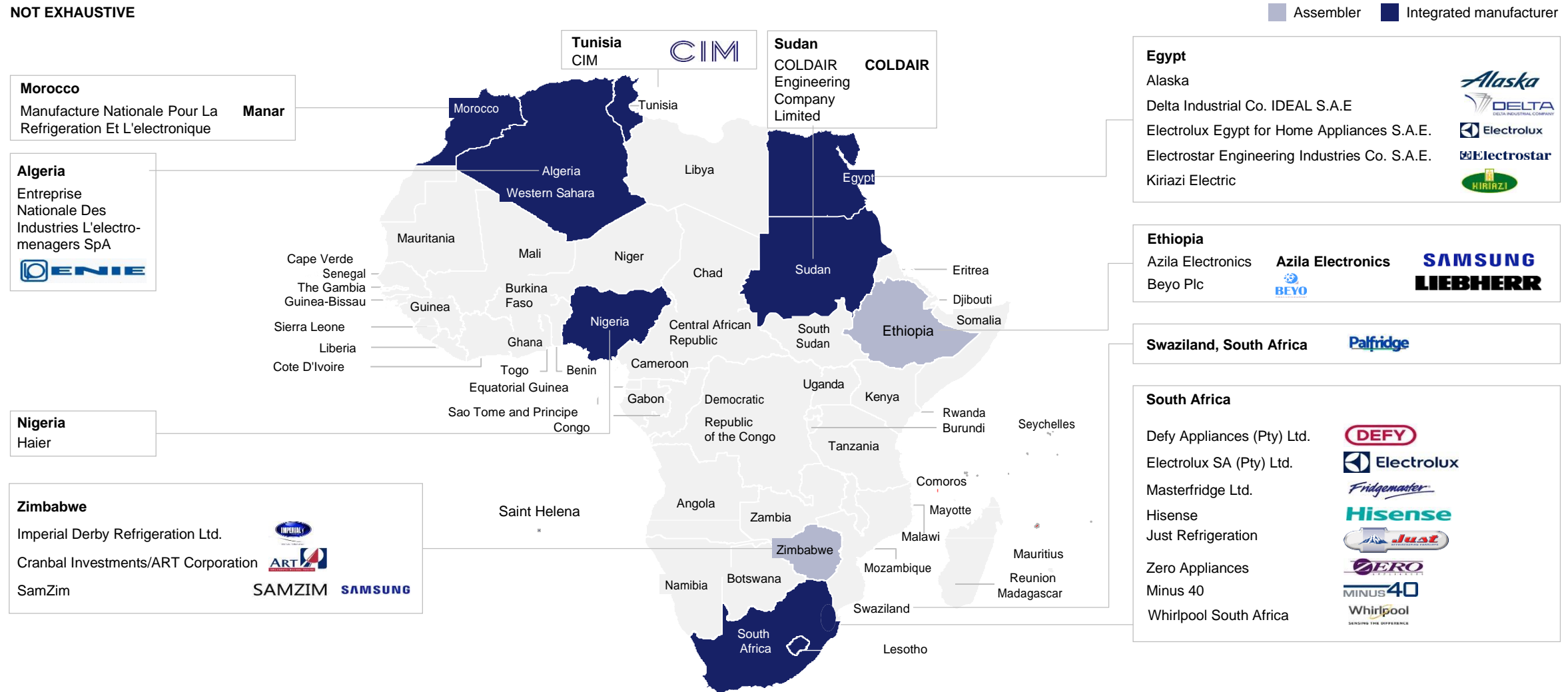
~60% of the fridge market in Kenya is controlled by low-end to mid-range brands

The mid-range brand segment is dominated by local private label brands, which tend to be less available outside Kenya

There is limited fridge manufacturing capacity in Africa and capacity in East Africa is limited to assembly

PRELIMINARY

NOT EXHAUSTIVE



Samsung and Liebherr are the only global brands with presence in the EAC

Smaller and more localized brands are not as competitive as international brands as they do not enjoy the same economies of scale or global sourcing advantages

Source: Expert interviews, Press search

Two short term opportunities exist, but integrated manufacturing of TVs and fridges could likely offer greater potential

Deep-dive to follow



Favourable



Unfavourable

Initial high level evaluation of economics

| | Description | Target market | Opportunity assessment | Product | Investment size, \$Mn | Revenue ³ , \$Mn | EBITDA, \$Mn | IRR ¹ , % |
|---------------------------------|---|--|---|-----------|-----------------------|-----------------------------|--------------|----------------------|
| Basic assembly | Importing semi-knocked down (SKD) components and performing basic assembly | Select EAC and COMESA countries ⁴ | Low potential | TVs | 0.1 | 6.0 (60k units) | 0.1 | 40 |
| | | | <div> <div>+</div> Low investment requirement <div>−</div> Relatively limited scope for regional expansion – distributors in individual countries can set up operations relatively cheaply <div>−</div> Many lower end brands already performing basic assembly in Kenya </div> | Fridges | 0.2 | 7.4 (35k units) | 0.1 | 23 |
| Integrated manufacturing | Production of basic components e.g. plastic casings in-house; importing other components and assembling Higher investments required for equipment needed to manufacture components | Select EAC and COMESA countries ⁴ | High potential | 1 TVs | 14.0 | 58.5 (313k units) | 10.8 | 40 |
| | | | <div> <div>+</div> Scope for regional sales <div>+</div> Higher potential to access investment incentives given investment size and value chain development potential <div>+</div> No integrated manufacturer present in Kenya <div>−</div> Requires key incentive changes² </div> | 2 Fridges | 18.3 | 52.9 (176k units) | 10.1 | 24 |

1. IRR calculated over 7 years

2. Economics for integrated manufacturing calculated based on 0% duty; the prevailing rate at regional hubs on the continent

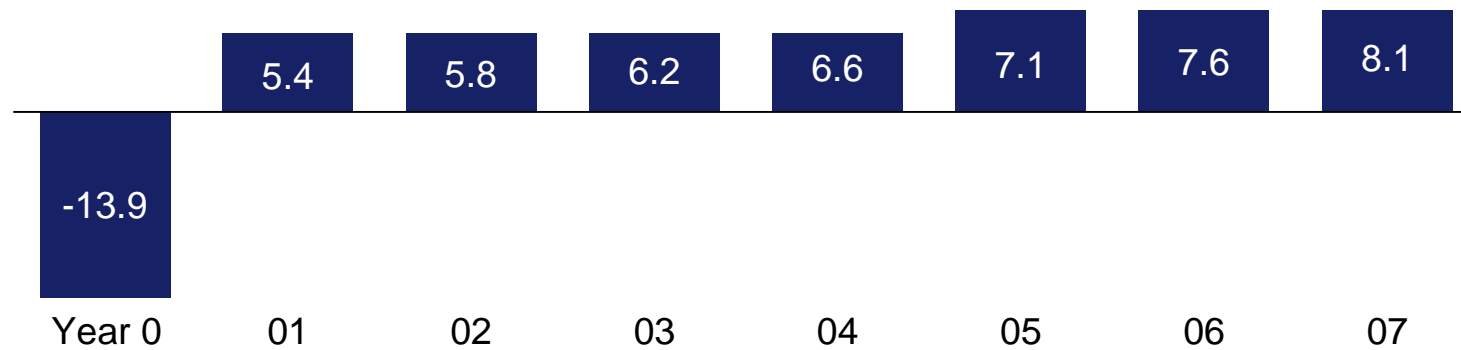
3. Year 7 revenues. Economics assumes 5% share of Kenya market for basic assembly; 10% share of regional market for integrated manufacturing, in line with typical market shares for low-end and mid-to-high end brands respectively

4. Kenya, Rwanda, Uganda, Tanzania, Burundi, South Sudan, Comoros, D.R. Congo, Djibouti, Ethiopia, Malawi, Seychelles

Integrated TV assembly for East Africa: An investment of ~\$14Mn could yield an IRR of ~40% over 7 years

Potential cash flow and project economics

\$Mn



1 year

Time to **profitability**

~3 years

Estimated time to recover **full investment**

~\$12.2Mn

NPV

~40%

IRR calculated over **7 years**

~\$10.8Mn (19%)

EBITDA margin

1. Year 7 volumes; assumes ~10% market share in the region, in line with medium-high end brands' typical market share

2. Assumes 0% Customs duty for imported components

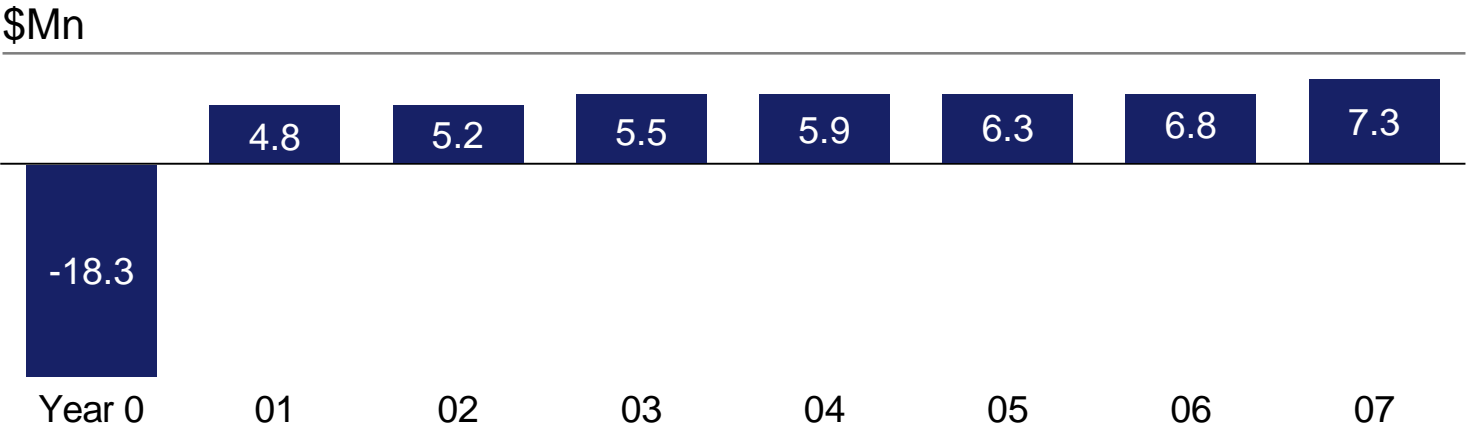
Source: Expert interviews

Key assumptions

| | | |
|----------------|--------------|--|
| Capex | \$8Mn | CAPEX to set up assembly line |
| | \$6Mn | Land purchase, development and construction, miscellaneous |
| Revenue | 313k | Number of units ¹ |
| | \$187 | Ex-factory price |
| Opex | 60% | COGS as % of ex-factory price ² |
| | 9% | Labour costs as % of operational costs |
| | 18% | Utilities and other costs as % of operational costs |

Integrated fridge manufacturing for East Africa: An investment of ~\$18Mn could yield an IRR of ~24% over 7 years

Potential cash flow and project economics



1 year

Time to **profitability**

~4 years

Estimated time to recover **full investment**

~\$4.9Mn

NPV

~24%

IRR calculated over **7 years**

~\$10.1Mn (19%) EBITDA margin

1. Year 7 volumes; assumes ~10% market share in the region, in line with medium-high end brands' typical market share

2. Assumes 0% Customs duty for imported components

Source: Expert interviews







Key assumptions

| | | |
|---------|---------|--|
| Capex | \$12Mn | CAPEX to set up assembly line |
| | \$6.3Mn | Land purchase, development and construction, miscellaneous |
| Revenue | 176k | Number of units fridges ¹ |
| | \$300 | Ex-factory price fridge |
| Opex | 60% | COGS as % of ex-factory price ² |
| | 7% | Labour as % of total operational costs |
| | 20% | Utilities and other costs as % of operational costs |

Current incentives offered by GoK could facilitate investment



Source: KenInvest, Press search

| Category | Description |
|--|--|
|  Customs duty deductions | 10% duty on TV components imported versus 25% for fully assembled TV |
|  Taxes | Kenya offers corporate tax holidays for manufacturers in EPZs and similar incentives for SEZs |
|  Utilities cost | The Kenyan government is offering a 30% rebate to manufacturers on their electricity expenses |
|  Labour costs | Financial incentives for workforce training (between 25 – 85% of training costs) |
|  Market access | Kenya has preferential access to export markets through trade agreements - via AGOA(US), EPA(EU), COMESA and EAC |
|  Investment promotion | KenInvest offers one-stop shop for potential investors, facilitating registrations and setup and introductions to key stakeholders |



**For further
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