

Investment opportunities in pasta manufacturing in Kenya

January 2021



GREAT *for* **GROWTH**
BRITAIN & NORTHERN IRELAND



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Executive summary: pasta



Pasta could be a high-potential investment area given current dependence on imports, and projected growth

Kenya's pasta is expected to be worth \$98Mn by 2030 with the regional market at \$400Mn as incomes and populations grow in East Africa

Currently, Kenya imports all of its pasta, of which over 60% is from Egypt. Egypt benefits from COMESA (no duty) and economies of scale when importing durum wheat



Kenya could substitute the imports of pasta and even serve the East Africa market

Kenya has an existing foundation of millers that could use their capacity to mill durum wheat into semolina which makes pasta

Key enabling interventions include lower wheat import duties, improving port capacity and processing hubs, strengthening conditions for export, offering affordable financing and upskilling labour, etc



Manufacturing Africa could enable support for local millers to obtain investments and favourable business environments to capture the opportunity

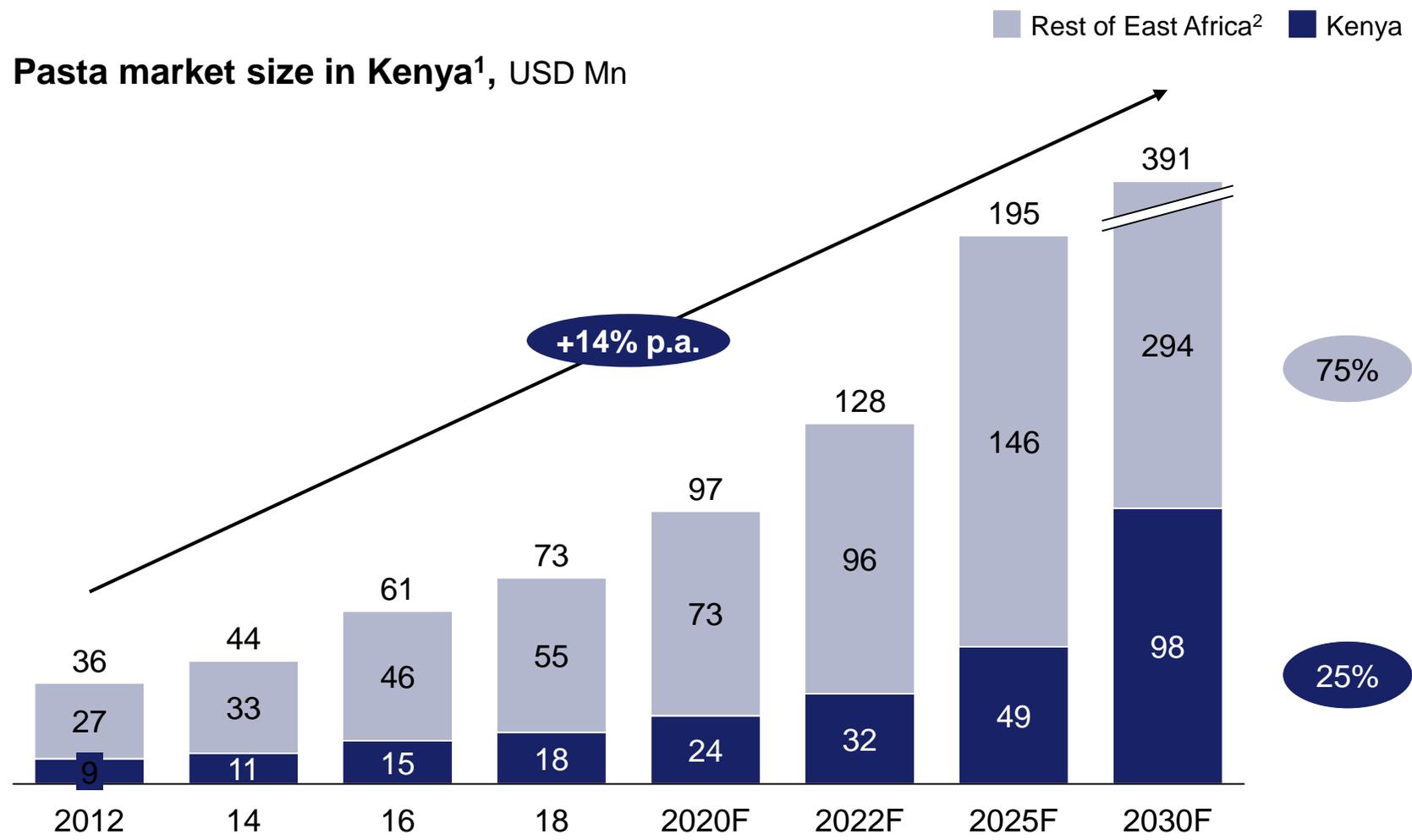
In the short term (1-5 years), a local miller could set up a pasta manufacturing plant with 1 production line, requiring a capex investment of ~\$1,6 Mn and could generate annual revenue of ~\$2 Mn (equivalent of 1,800T of pasta, 6% of market share) and yield an IRR of 20% over 7 years. If the manufacturer is able to establish a more premium brand, the margin and IRR could be higher

In the longer term (5-10 years), a manufacturer could capture 5% of East Africa pasta demand in 10 years with a capex investment of \$15Mn, generating annual revenue of \$25-30 Mn, and IRR of up to 30% over 7 years



1. The Kenyan pasta market is fast growing and expected to be worth \$98 Mn by 2030, a quarter of East Africa market

Pasta market size in Kenya¹, USD Mn



1. Represents final sales value based on imports data of noodles and pasta as the market is dominated by imports
 2. Rest of East Africa includes Ethiopia, Uganda, Rwanda, Burundi and Tanzania

Source: ITC trade data, World Bank ; Kenya National Bureau of Statistics

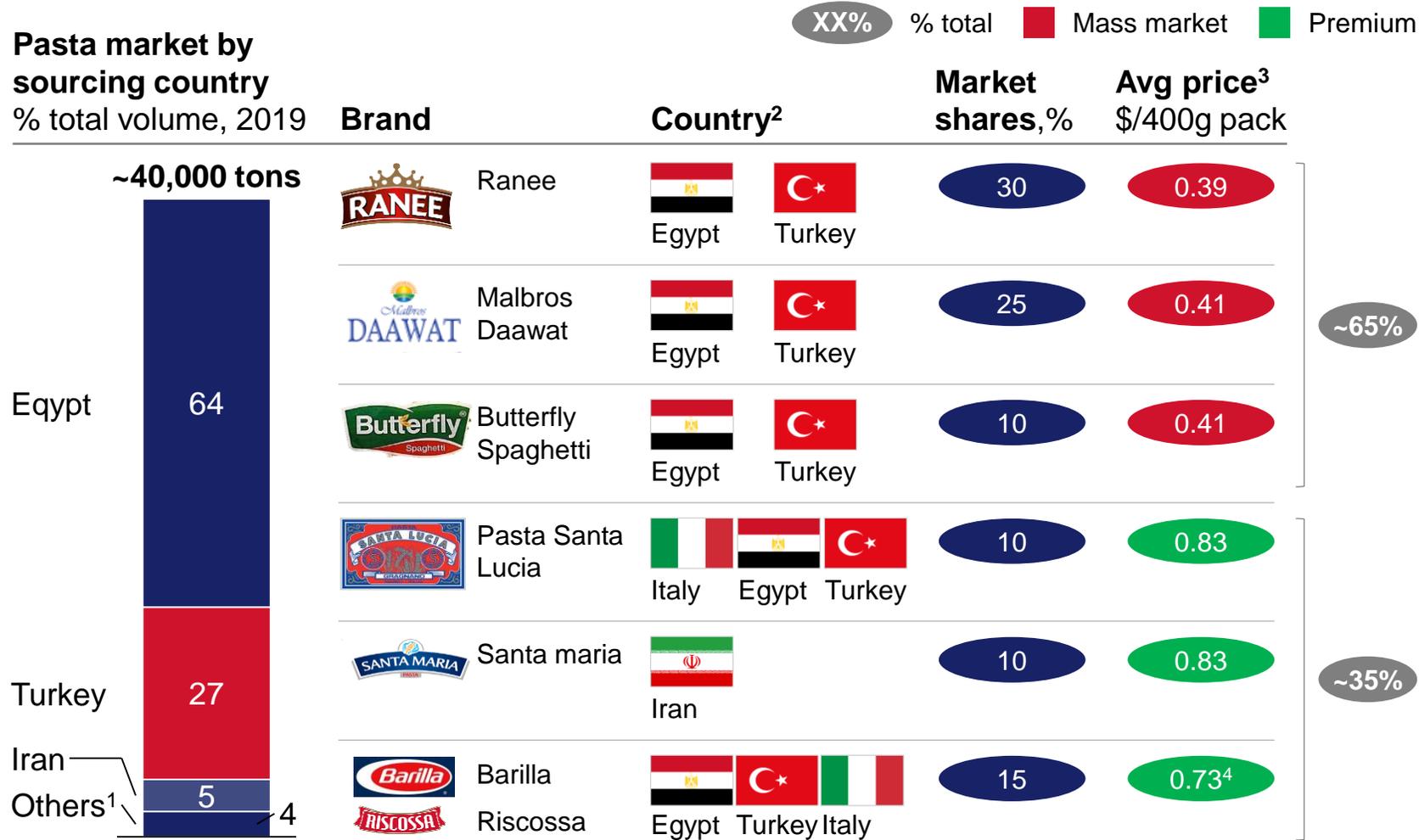


Key insights

The increasing demand represents an opportunity to **substitute imports with locally manufactured pasta to serve the domestic market.**

Regional exports to East Africa may be possible in the longer term if Kenya established itself as a **regional cost-effective manufacturing hub.**

2b. More than 90% of pasta is imported from Egypt and Turkey; premium pasta is 1/3 of market



Key insights

There is no local production of pasta in Kenya. **More than 90% of the pasta sold in Kenya are imported from Egypt and Turkey**

While mass market pasta has **2/3 market share** and premium pasta sold at twice the price (~\$0.8/400g pack) represents **1/3 of market**

1. Includes Oman, Italy, United Arab Emirates and 20 other countries with <1% share of imports
 2. Some brands manufacture pasta in multiple countries
 3. End user price in the supermarket, fluctuate based on exchange rate and import quantities
 4. 2/3rd of them are also premium

Import durum wheat to process into semolina and manufacture pasta locally is the best option to produce pasta in Kenya

■ Detailed further

Option description	Option 1: Import pasta final product and package locally	Option 2: Import durum wheat to process into semolina and manufacture pasta locally	Option 3: Grow durum wheat locally
Assessment of sector transformation potential	Low sector transformation potential: status quo with minimum manufacturing process involved	High sector transformation potential: with the right enablers to encourage local processing, Kenya could manufacture pasta locally to substitute imports Millers could use their 30-40% unused capacity to mill the durum wheat into semolina. Then they could build new pasta processing production lines to turn that processed Durum wheat (i.e., semolina) into pasta	Medium sector transformation potential: unlikely to happen in the near time due to Kenya's agriculture conditions <ul style="list-style-type: none"> • Does not have long cold season required by wheat growing • Does not have sufficient irrigation
Prerequisites for success	No enablers required	Durum wheat import cost lowered by 1) scale 2) lower import duty Local millers willing to mill semolina for pasta manufacturing Cost of processing is competitive by adopting integrated processing	Suitable agriculture conditions for durum wheat growth Government subsidy to farmers to make local wheat as cost competitive as imports

Under option 2, existing wheat millers in Kenya could generate up to \$~11,5Mn of additional revenue by manufacturing pasta

	Description	Opportunity assessment	Market coverage	Investment size ¹	Revenue	EBITDA over 4 years	IRR, calculated over 7 years
1	Kenya miller using integrated process serving local market (short term: 1-5 years)	<p>Import raw material (durum wheat) and manufacture pasta locally, 1 production line</p> <p>High potential - immediate</p> <ul style="list-style-type: none">  Likely to be attractive to local wheat millers with available capacity  Ability to spur agro-processing sector development through in-country pasta manufacturing 	Kenya	<p>\$1,6Mn</p> <ul style="list-style-type: none"> • Land and development: \$0,2Mn • Construction: \$0,36Mn • 1 production line: \$0,15Mn • Mill: \$0,6Mn⁴ • Packaging equipment: \$0,1Mn • Other: \$0,2Mn 	<p>\$2Mn</p> <p>Processed quantity per year: 1,800T, i.e. ~4,5% of Kenya market share in 2020</p> <p>Selling price: \$1,175/T</p>	\$780k²	~20%
2	Scale up to serve regional market (long term: 5-10 years)	<p>Import raw material (durum wheat) and manufacture pasta locally, 12 production lines</p> <p>High potential – medium term</p> <ul style="list-style-type: none">  Likely to be attractive to local wheat millers as most of them have 30-40% excess capacity  Ability to spur agro-processing sector development through in-country pasta manufacturing  Opportunity to become a regional pasta manufacturing hub and serve the East Africa market 	East Africa	<p>\$15,5Mn</p> <ul style="list-style-type: none"> • Land and development: \$0,5Mn • Construction: \$0,7Mn • 12 production lines: \$1,8Mn • Mill: \$12Mn⁴ • Packaging equipment: \$0,25Mn • Other: \$0,35Mn 	<p>\$26Mn</p> <p>Processed quantity per year: 22,600T, i.e. ~6% of East Africa market shares in 2030</p> <p>Selling price: \$1,075/T</p>	\$11,5Mn³	~30%

1. Assuming 1% of a \$60Mn mill capex for case 1 and 10% of a \$120Mn mill capex for case 2 (mills cost from \$60 to \$300 Mn depending on the size), as the existing machinery has available capacity (40% of capacity is still available in Kenya)

2. Raw materials: \$0,8Mn, industrial variable cost: \$0,3Mn (semolina price: \$450/T), direct labour: \$0,2Mn

3. Raw materials: \$10Mn, industrial variable cost: \$3,8Mn (semolina price: \$450/T), direct labour: \$1,1Mn

4. Assuming a percentage of milling capacity used

**The project
could yield
significant
benefits for
Kenyans**

Option 2: Medium term miller business case - Key impact metrics to capture 6% of East Africa pasta market



**Millers
business
transfor-
mation**

~10-15

Existing foundation of millers that could use their capacity to mill durum wheat into semolina and then make pasta



**Job
creation**

50-100

Jobs created



Earnings

\$1Mn

Annual salary earnings of employees

225¹

Number of family members supported by additional employed people



**Tax
revenue**

\$150K

Estimate annual PAYE taxes collectible by Year 7²

1. Based on employment-to-population ration of 45%
2. Assumes 15% effective tax rate

MA program aims to drive high-impact enabling initiatives to ensure the business environment is favourable to capture the opportunity

■ To be prioritized ● Low ● High

POTENTIAL INCENTIVES

	Enabling initiatives	Description	Stakeholders (preliminary)	Impact ¹	Ease of implementation	
	Sourcing of raw material					
	Import duty	Lower currently 10% wheat import duty for local manufacturers , e.g. in Turkey it is waived if the processor exports proportional quantity of pasta	Treasury, MoITED, Ministry of Agriculture	●	●	
	Port building	Position Mombasa Port as a destination for durum wheat commodities (better storage facilities, additional berths for wheat, waiver in port charges for wheat imports)	Kenya Ports Authority	●	●	
	Processing hubs	Encourage hubs of processing units to be set up close to the port to reduce cost of transportation and create hub effect	MoITED, Ministry of Agriculture	●	●	
	Electricity subsidies	Subsidized electricity costs by government for industrial use	MoITED, KPLC	●	●	
	Tax holidays	Implement tax holidays for processing facilities	MoITED, Treasury	●	●	
	International shipping					
	Import duty	Increase the import duty on pasta from 10% to make pasta processing more economically attractive than importing pasta directly	MoITED, Treasury	●	●	
	Encourage exports	Strengthen EPZ concept and encourage pasta processing for exports to East Africa , e.g. reduce shipping costs for pasta exports	MoITED, EPZA	●	●	
	Finance	Financing options	Offer cheaper financing options for millers willing to manufacture pasta to improve their IRR	MoITED, Treasury, CBK, Local commercial banks	●	●
	Labour	Labour upskilling	Train workers to meet skills gap in manufacturing industry and ensure a pipeline of talents, including in pasta processing	MoITED, MLSP	●	●

1. Impact on attracting further investment into the space