

The Pentad – Urban Retail Price Tracker



Volumes ride the crest of the ‘ember’ season

In this edition of The Pentad – Urban Retail Price Tracker (PURP), we expand our coverage of products in the brewery basket to include **Trophy Lager**, a leading value beer predominantly consumed in South-West Nigeria and which is produced by International Breweries Plc. (INTBREW). In view of this addition, our representative basket in the brewery segment now includes *Star*, *Gulder*, *Malta Guinness*, *Goldberg*, *Trophy*, *Satzenbrau*, and *Guinness stout*. We have retained the composition of the other segments

In the month of October, our channel checks showed a modest pace of price increases across most segments on the back of benign cost pressures, higher competition from imports as well as intense industry competition. In addition, we note that sales volumes climbed higher underpinned by festive-induced demand as well as the end of the rainy season.

Against the backdrop, PURP index increased 0.79% MoM to 101.2 ppts vs. 0.86% MoM in September—with the bulk of pressures occurring in the last two weeks of the month.

Table 1: Weightings and data analysis

	Weightings	Price change	Standard deviation of prices	Broad volume movement
Commodities	30%	1.0%	155	Flat to Increasing
Consumers	30%	0.3%	4	flat
Brewery	20%	0.3%	19	Flat to increasing
Cement	10%	0.2%	29	flat to increasing
Gas	10%	-0.4%	50	flat to retracting

Table 2: Mean prices across segments

	Brewery	Cement	Consumers	Commodities	Cooking gas
Jun-17	2767	2900	428	15000	4800
Jun-17	2750	2800	429	15333	4800
Jun-17	2767	2900	436	15500	4900
Jun-17	2817	2900	427	15500	4900
Jul-17	2808	2900	427	15333	5000
Jul-17	2825	2900	426	15500	4900
Jul-17	2792	2850	426	16000	4900
Jul-17	2800	2900	425	16417	4800
Jul-17	2850	2800	424	16167	4800
Aug-17	2743	2850	426	15550	4800
Aug-17	2750	2900	438	15650	4800
Aug-17	2743	2900	441	16300	4500
Aug-17	2743	2800	439	16300	4300
Sep-17	2750	2850	438	16167	4100
Sep-17	2686	2850	438	16167	4100
Sep-17	2600	2900	437	16167	4000
Sep-17	2586	2850	437	16167	3900
Sep-17	2650	2900	438	16117	4100
Oct-17	2643	2900	436	16183	4100
Oct-17	2679	2850	439	16233	4000
Oct-17	2650	2850	438	16333	4000
Oct-17	2679	2900	444	16533	4000

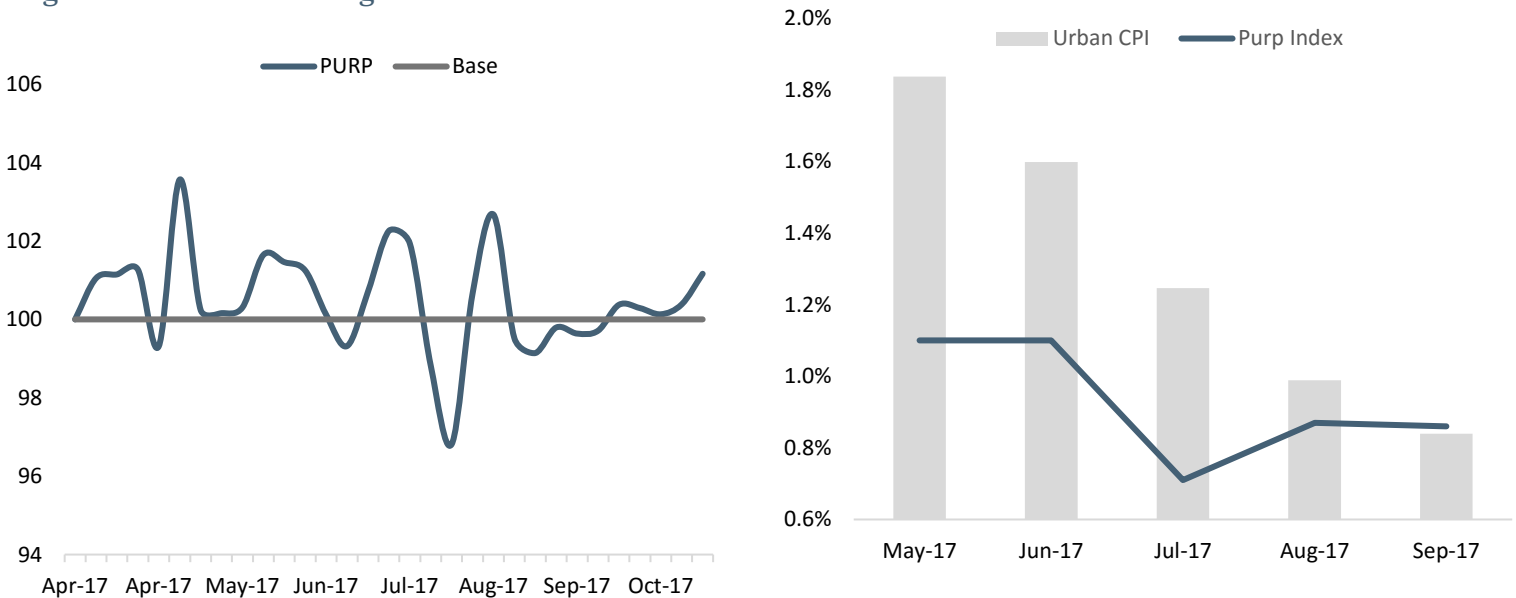
Across the composite sectors, price evolution is monitored on a weekly basis. In a manner slightly akin to CBN's PMI methodology, we adopt 0.6%, 0.0%, and -0.6% as indicators for volume expansion from prior week, no change in volumes, and week on week output contraction respectively.

To provide guidance on average movement in retail prices, we developed the Pentad Urban Retail Price Index (PURP) which adopts April 1st to 8th 2017 as a base period. The PURP index accords 30% weightings apiece to consumer and commodities prices, 20% weighting to the brewery basket with a further 20% distributed evenly between cement and cooking gas prices.

Key Summary

- The PURP index stood at 101.2 index points in October 2017, indicating a 0.79% MoM increase in urban retail prices relative to 0.86% MoM increase in the prior month.
- Results from our survey showed a 0.3% decline in retail prices in the first and second week of October followed by a cumulative 1.1% increase in the third and fourth week of the month.
- Price volatility in the commodities basket accelerated in October unlike the prior month wherein price movement was soft. Elsewhere, the consumer basket witnessed the least volatility in prices over the review period.
- In our view, the cool-off in price pressures reflects benign input cost pressure and higher competition from imports against the backdrop of improved FX liquidity.

Figure 1: Historical changes in PURP index



Source: Local markets, ARM Research

Retail Prices in the Brewery Basket

Average beer prices increased by 0.3% MoM in October to ~₦2,663/crate after two consecutive months of decline. Our channel checks reveal increases across all beer products within our coverage excluding *Satzenbrau* and *Trophy*. The highest price increase was recorded by *Star lager* (+1.9% MoM) and *Gulder* (+0.9% MoM).

From our findings, declining volumes by most premium brands necessitated the modest increase in prices to preserve margin. As usual, the competitive pricing of (*Satzenbrau* and *Trophy*) in the value space ensured that these brands continued to consolidate market share in the period.

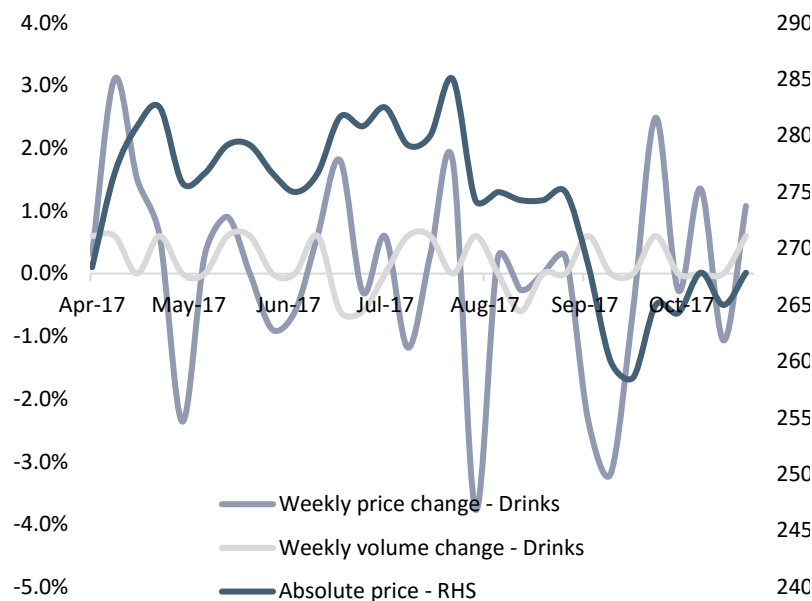
On average, volumes were higher in the month following the conclusion of the rainy season as well as kick-off to the festive season.

Retail Prices in the Cement Basket

Cement prices sustained the expansion recorded in the prior month (+0.26% MoM), with both retail and wholesale prices increasing by 0.17% MoM and 0.69% MoM respectively.

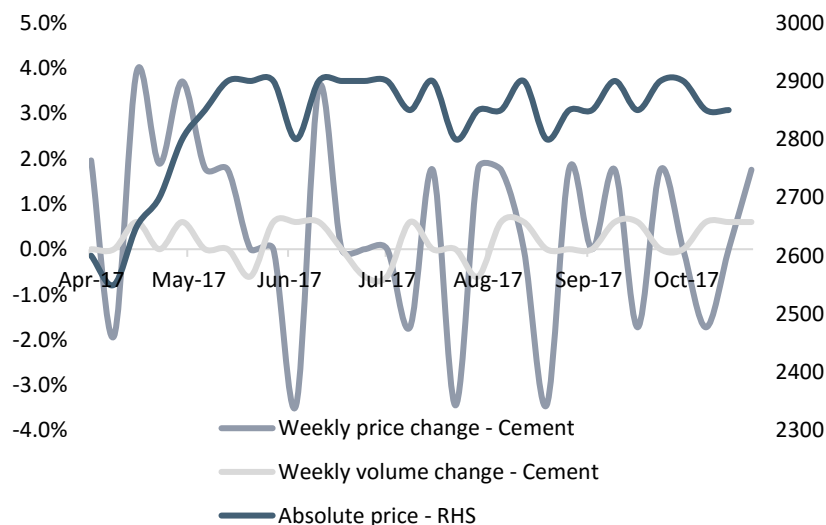
Given the end of the rainy season and expected pick-up in construction activities, findings suggest modest price increase was largely due to an uptick in demand.

Figure 2: Historical movements in mean drink prices (₦/ crate)



Source: Local markets, ARM Research

Figure 3: Historical movements in cement prices (50kg bag, ₦)



Source: Local markets, ARM Research

Retail Prices in the Consumer Basket

Elsewhere, average retail prices in our consumer basket expanded (+0.32% MoM) for the third consecutive month. Our channel checks reveal that prices of *Close up* and *blue band* declined by 0.8% MoM and 1.4% MoM respectively. *Dangote sugar* and *Lipton* recorded price increases of 1.56% and 0.64% respectively while prices of *Milo* and *Dangote salt* remained unchanged relative to prior month.

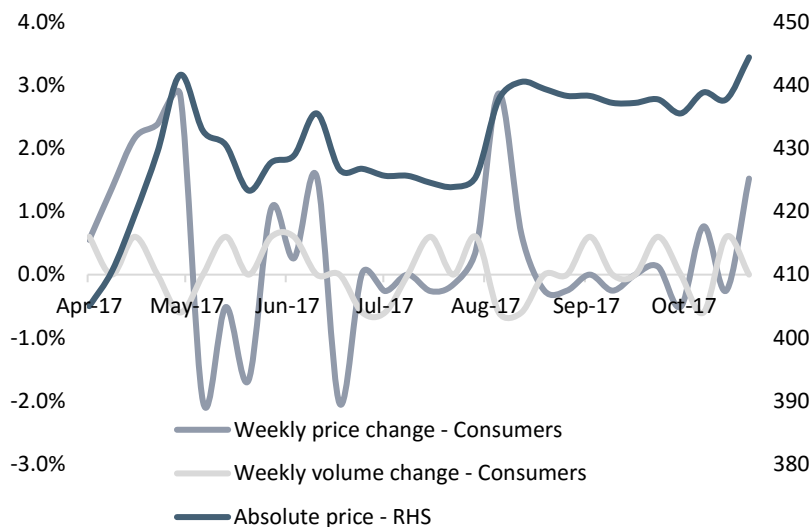
In an update to our last publication, market feedback showed a slight reversal of supply shortage. Furthermore, in a departure from past trend where consumers were largely price-sensitive, information from retailers presently link product differentiation as the key determinant of volumes sold. Key market innovation includes the introduction of *Milo energy food drink* in a Ready-to-Drink (RTD) form and *MAGGI NAIJA POT*. Overall, volumes were largely flat across the consumer space in the review period.

Retail Prices in the Commodity Basket

Away from our coverage names in the consumer space, average retail price across our commodity basket increased 1.0% MoM largely driven by higher prices of crude palm oil (+3.5% MoM) and vegetable oil (+1.9% MoM). Precisely, the increase in price of crude palm oil reflected scarcity of the product as production cycle nears its off-peak period. Feedback from retailers also pointed to the possibility of hoarding ahead of the festive season.

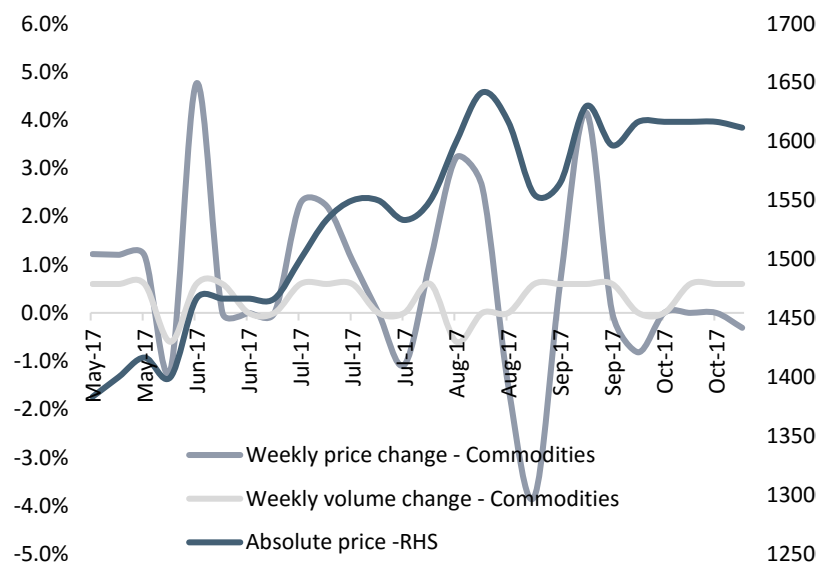
Elsewhere, the price of rice declined by 1.4% in the period largely reflecting a bumpy harvest in major production areas like Taraba. Volumes were broadly increasing in the review period.

Figure 4: Historical movements in consumer space



Source: Local markets, ARM Research

Figure 5: Historical movements in commodities space



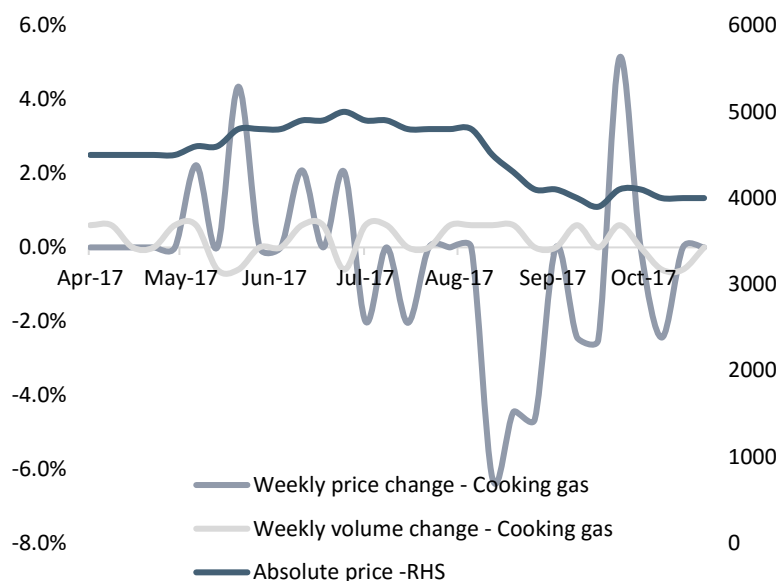
Source: Local markets, ARM Research

Retail Prices of Cooking Gas

With the strategic intervention of the NNPC still in full gear, mean prices of cooking gas trended lower for the third consecutive month in October (-37 bps MoM to ₦4025/12.5kg). To be precise, NNPC sustained intervention in the supply and distribution of petroleum products in the country. In view of this objective, NNPC resuscitated some of its critical pipelines and depots such as the Atlas Cove - Mosimi Depot Pipeline, Port-Harcourt Refinery – Aba Depot Pipeline, Kaduna – Kano Pipeline and the Kano Depot which further enhanced distribution efficiencies.

Nevertheless, retailers reported that sales volume remained largely unchanged in the review period.

Figure 6: Historical movements in cooking gas prices



Source: Local markets, ARM Research

Coverage names with products mentioned

	FVE	Market Price (N)	Upside (Downside)	Recommendation
Guinness	73.80	102.00	-27.65%	SELL
Nigeria Breweries	130.75	143.00	-8.57%	SELL
Nestle	879.62	1290.00	-31.81%	SELL
Cadbury*	-	11.20	-	-
Unilever	28.48	40	-28.80%	SELL
Dangote Sugar	17.75	15.25	16.39%	OVER WEIGHT
Dangote Cement	203.32	229.10	-11.25%	SELL
Lafarge	48.45	51.45	-5.83%	SELL
CCNN	8.19	9.7	-15.57%	SELL
Forte Oil	33.91	42.00	-19.26%	SELL
Conoil	40.18	28	43.50%	BUY
MRS	48.01	27.46	74.84%	BUY
Total	364.07	230.02	58.28%	BUY
Oando*	-	5.99	-	-
Okomu	63.1	65	-2.92%	SELL
Presco	66.97	66	1.47%	SELL

Source: ARM Research. * stands for Not Covered

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