

The Pentad – Urban Retail Price Tracker



Price pressures resurface after mild cool off

The month of August saw mixed retail price stories across our coverage segments with the overall concussion ultimately translating to an increase in the PURP index (0.7% MoM to 99.5 ppts)—with the bulk of the pressures occurring in the second and third week of the review month.

In this edition of *“The Pentad – Urban Retail Price Tracker”*, we expand our consumers basket to include Maggi, Milo as well as refined salt while retaining the composition of the other segments. In view of these additions, our representative basket in the consumers space now includes Close up, Bournvita, Milo, Blue band, Omo, Lipton, Refined sugar, Dettol, Maggi, Milo, and refined salt. Elsewhere in the retail space of brewery, we focus on Star, Gulder, Malta Guinness, Goldberg, Satzenbrau, and Guinness. For commodities, we are only kin on crude palm and vegetable oils and rice just as we monitor retail developments in cooking gas in the oil and gas space. In addition to the changes in consumers segment, we also transit to monthly analysis of data obtained (as opposed to the prior week on week reviews) with a view to providing a more wholistic picture of developments.

Table 1: Weightings and data analysis

	Weightings	Price change	Standard deviation of prices	Broad volume movement
Commodities	30%	0.4%	406.2	Increasing
Consumers	30%	2.5%	6.9	flat to retracting
Brewery	20%	1.4%	4.2	flat
Cement	10%	-0.3%	47.9	flat to retracting
Gas	10%	-6.0%	244.9	flat to increasing

Table 2: Mean prices across segments

	Brewery	Cement	Consumers	Commodities	Cooking gas
Apr-17	2675	2550	403	13667	4500
Apr-17	2683	2600	405	13833	4500
Apr-17	2767	2550	411	14000	4500
Apr-17	2808	2650	419	14167	4500
Apr-17	2825	2700	429	14000	4500
May-17	2758	2800	442	14667	4500
May-17	2767	2850	433	14667	4600
May-17	2792	2900	431	14667	4600
May-17	2792	2900	423	14667	4800
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	2850	2850	426	15550	4800
Aug-17	2858	2900	438	15650	4800
Aug-17	2850	2900	441	16300	4500
Aug-17	2850	2800	439	16300	4300

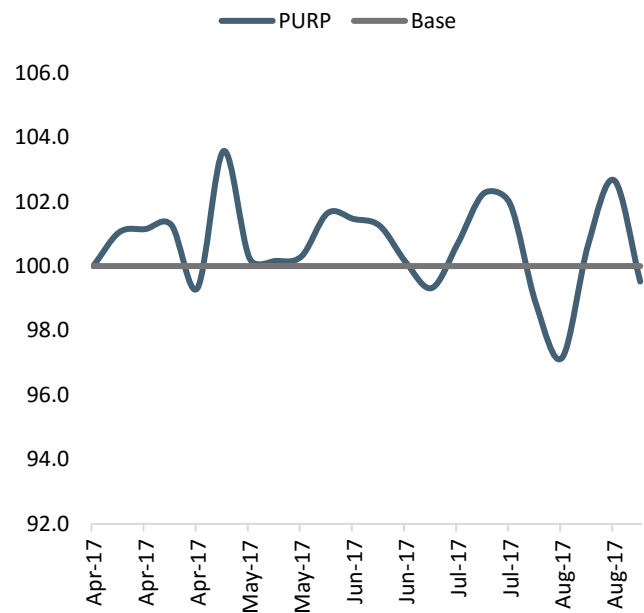
Across the sectors, price evolution is monitored on a weekly basis while we adopt 0.6%, 0.0%, and -0.6% as indicators for volume expansion from prior week, no change in volumes, and week on week output contraction (respectively) in a manner slightly akin to CBN's PMI methodology.

To get a sense of how retail prices have moved on average, we also fashion out a Pentad Urban Retail Price Index (PURP) which adopts April 1st to April 8th 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

- After two consecutive monthly decelerations, the PURP index expanded 0.7% MoM over August to indicate renewed price pressures across our retail baskets.
- Survey result showed a steep decline (-2%) in the first week of August followed by a cumulative 6% increase in prices in the second and third week of the review period.
- Whilst the initial decline in retail prices reinforced our view on the delayed pass-through of increasing FX availability, we think the subsequent increase in retail prices was largely reflective of increased stock-piling ahead of the Eid-el-Kabir celebration.
- Going by the index readings, urban retail prices rose 0.7% over August. (vs +1% MoM July urban inflation reported by NBS).
- Although retail price volatility - as measured by the standard deviation from the mean - reduced by 10.7% MoM in the commodities market, it still recorded the largest price volatility across our various coverage.
- Across other sectors, consumers had the least price volatility.
- Overall, going by the developments in the retail end, we believe some coverage companies may have succeeded in further nudging prices higher in August to retain strong pass-through to top-line.

Figure 1: Historical changes in PURP index



Source: Local markets, ARM Research

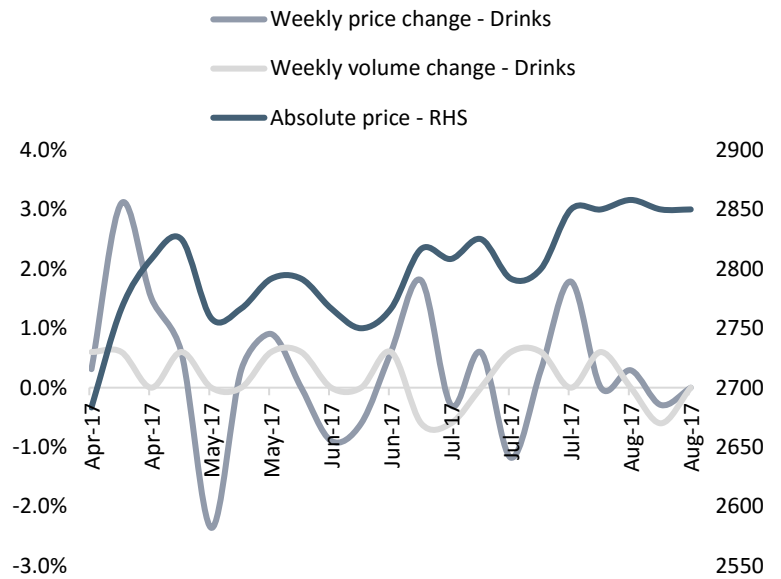
Retail Prices in the Brewery Space

After retreating 1.4% MoM in July, mean drink prices rebounded by a similar margin in August 2017 to ~₦2,852/crate to leave prices elevated in the review period (relative to prior year). Across our brewery basket, price increase was most evident for Malta Guinness (+2.8% MoM), Gulder (+1.6% MoM), and Star (+1.4% MoM). Affirming this trend across the space is Guinness Nigeria Plc's latest communication emphasizing the influence of higher value brand prices (Retail price of Satzenbrau: +1.2% MoM in August) on the company's top-line growth. That said, volumes were largely flat in the segment in the review month.

Retail Prices in the Cement Space

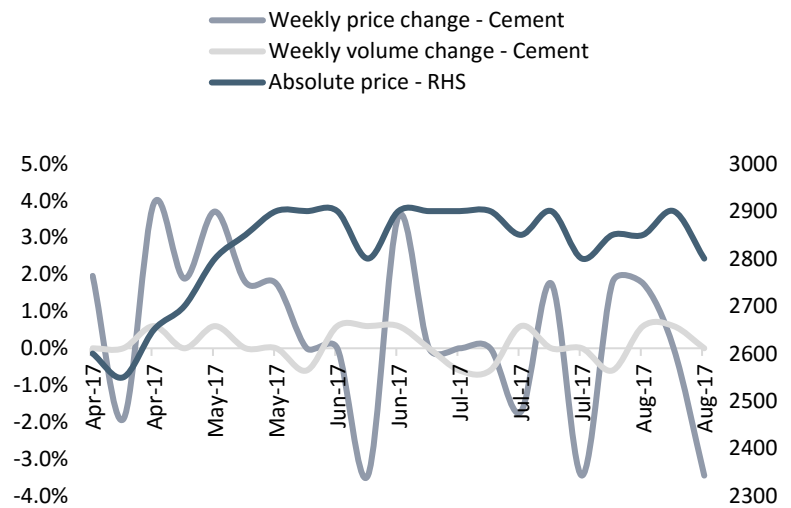
Moving over to the cement sector, we saw retail prices contract for the second consecutive month in August (-0.3% MoM) even though prices at the wholesale end rebounded (+0.5% MoM). Relative to most other segments covered, price of cement exhibited relatively subdued movements as ongoing rainfalls discouraged consumption—making retail price increase relatively difficult. Sequel to this, average retailers' margin shrank 1ppt MoM to 14% in the review period.

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



Source: Local markets, ARM Research

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

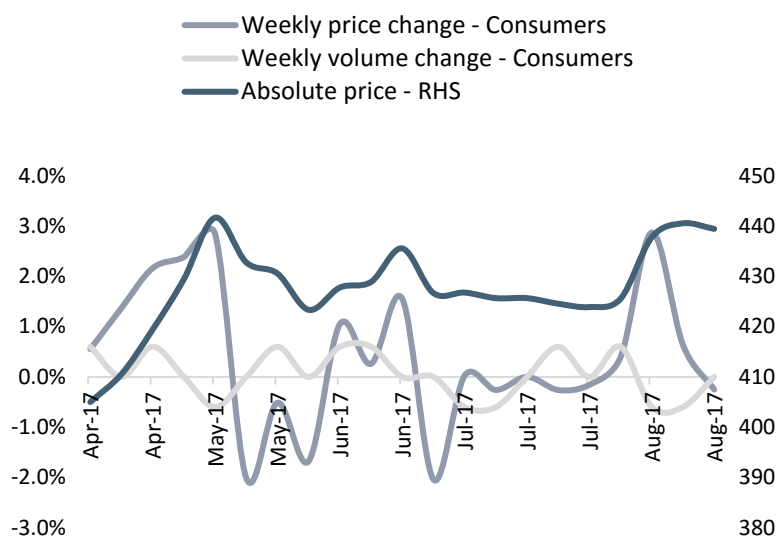


Source: Local markets, ARM Research

Retail Prices in the Consumers Space

Average retail price in our consumer basket increased (2.5% MoM) following strong growth in prices of refined salt (+11% MoM) and Milo (+7% MoM) which outweighed moderations in close up and Blue band prices. According to market feedback, retail demand for salt is gradually tilting to Mr. Chef and Annapurna brands while consumption of refined Dangote Salt reportedly slowed in the period. This feedback was largely consistent with a reported flat-to-falling retail demand for the latter product in the review month that was partly underpinned by supply shortages.

Figure 4: Historical movements in consumer space

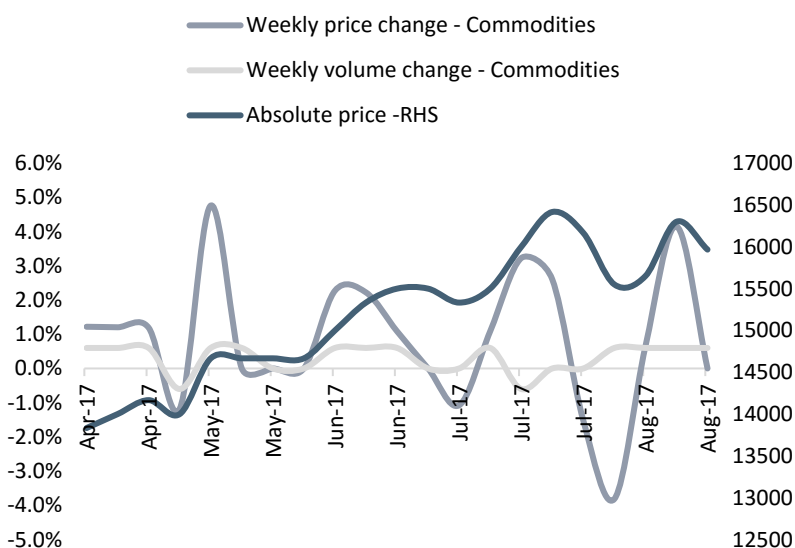


Source: Local markets, ARM Research

Retail Prices in the Commodities Space

The commodity space, a major component of the PURP index, saw mean prices remain largely flat in August. The relative price stability was in spite of a 2% decline in price of vegetable oil (to ₦16,663/20 litres) and a tamer deceleration in crude palm oil prices—both of which were largely offset by a 3% MoM increase in the price of rice. Our findings showed that the increase in price of rice was due to greater stockpiling ahead of anticipated pressures on commencement of the Eid-el-Kabir celebration. In passing, we note that the relatively subdued movement in retail prices of crude palm oil reflected stable exchange rate and improved dollar liquidity which capped scope for price hikes by importers.

Figure 5: Historical movements in commodities space

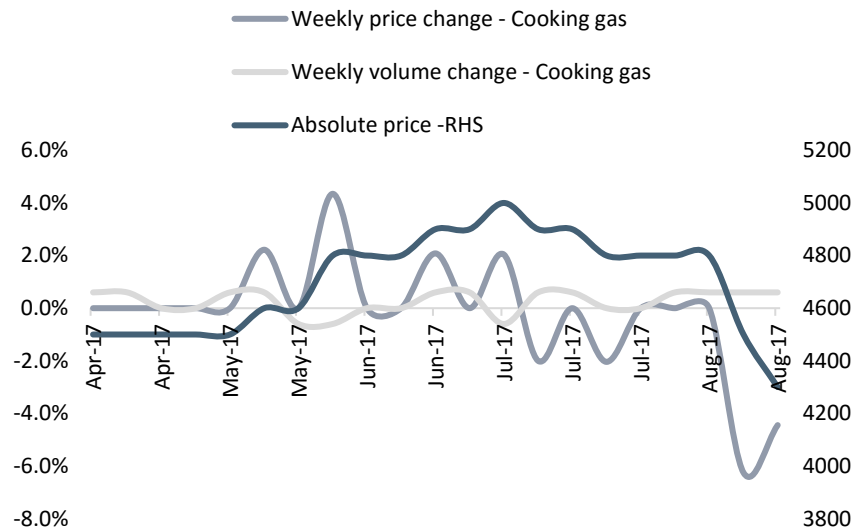


Source: Local markets, ARM Research

Retail Prices of Cooking Gas

Elsewhere, mean price of cooking gas continued to trend lower over the period (-6% MoM to ₦4600/12.5kg). For clarity, our latest market feedback indicates that prices have already touched ₦4,100 (-14.6% MoM) in early September. For us, gas price declines still reflect NNPC's strategic intervention in the supply and distribution of petroleum products in the country which have seen it remodel key distribution channels. With declining prices, retailers reported higher sales volume in the month of August.

Figure 6: Historical movements in cooking gas prices



Source: Local markets, ARM Research

Coverage names with products mentioned

	FVE (₦)	MARKET PRICE (₦)	UPSIDE/DOWNSIDE	RECOMMENDATION
Guinness	57.60	96.33	-40.21%	SELL
Nigeria Breweries	135.21	184.50	-26.72%	SELL
Nestle	879.93	1220.00	-27.87%	SELL
Cadbury	NC*	10.90	NC*	NC*
Unilever	39.44	40	-1.40%	SELL
Dangote Sugar	17.75	14.00	26.79%	STRONG BUY
Dangote Cement	215.11	215.00	0.05%	NEUTRAL
Lafarge	52.33	52.77	-0.83%	SELL
CCNN	8.19	8.9	-7.98%	SELL
Forte Oil	61.44	49.70	23.62%	BUY
Conoil	40.18	29	38.55%	BUY
MRS	48.01	33.66	42.63%	BUY
Total	364.07	232.98	56.27%	BUY
11 Plc	518.74	457.9	13.29%	OVERWEIGHT
Oando	NC*	6.51	NC*	NC*
Okomu	63.1	63	0.16%	SELL
Presco	66.97	64.98	3.06%	SELL

Source: ARM Research, NC* stands for Not Covered

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