

The Pentad – Urban Retail Price Tracker



Price pressure eats up retail space

Price increases have been the dominant means of combating elevated cost-inflation for most Nigerian companies in 2017, with most of the discuss in the sphere related to potential or actual pass-through to earnings. In this maiden edition of ***“The Pentad – Urban Retail Price Tracker”***, we re-direct the discus to the retail side of things—which is of greater relevance to the average Nigerian, with a view to isolating weekly price and volume dynamics across five of our coverage sectors: breweries, cement, consumer goods, commodities, and oil and gas. Ultimately, we also look to guesstimate the impact of inflation and CBN’s FX policies on the average Lagos (Urban) consumer.

In the brewery space, our representative basket comprises Star, Gulder, Malta Guinness, Goldberg, Satzenbrau, and Guinness. Elsewhere in the retail sphere of consumer goods, we focus on Close up, Bournvita, Milo, Blue band, Omo, Lipton, Refined sugar, and Dettol. For commodities, we are only kin on crude palm and vegetable oils and rice just as we monitor retail developments in cooking gas in oil and gas space.

Table 1: Weightings and data analysis

	Weightings	Price change	Standard deviation of prices	Broad sales volume direction
Commodities	30%	15%	720	flat to increasing
Consumers	30%	11%	17	flat to increasing
Brewery	20%	7%	47	flat to increasing
Cement	10%	12%	126	flat to increasing
Gas	10%	7%	177	flat to increasing

Table 2: Mean prices across segments

	Brewery	Cement	Consumers	Commodities	Cooking gas
Apr-17	2675	2550	324	13667	4500
Apr-17	2683	2600	328	13833	4500
Apr-17	2767	2550	338	14000	4500
Apr-17	2808	2650	354	14167	4500
May-17	2825	2700	372	14000	4500
May-17	2758	2800	394	14667	4500
May-17	2767	2850	378	14667	4600
May-17	2792	2900	374	14667	4600
Jun-17	2792	2900	360	14667	4800
Jun-17	2767	2900	368	15000	4800
Jun-17	2750	2800	370	15333	4800
Jun-17	2767	2900	382	15500	4900
Jul-17	2817	2900	366	15500	4900
Jul-17	2808	2900	366	15333	5000
Jul-17	2825	2900	362	15500	4900
Jul-17	2792	2850	362	16000	4900
Jul-17	2800	2900	360	15500	4800
Aug-17	2850	2800	360	15667	4800
Aug-17	2850	2850	360	15717	4800

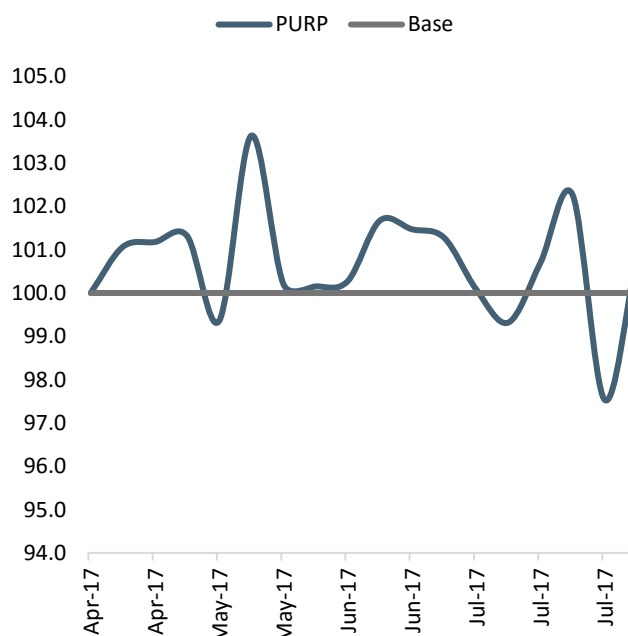
Across the sectors, price evolution is monitored on a weekly basis while we adopt 0.6%, 0.0%, and -0.6% as indicators for volume expansion from prior week, no change in volumes, and week on week output contraction (respectively) in a manner slightly akin to CBN's PMI methodology.

In order 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

- Survey result shows that the strongest retail price pressure across coverage occurred in April (+1.3%).
- On a Week-on-Week (WoW) basis, retail price pressure was more evident in the second week of May.
- After the surge in prices in the second week of May, we noticed sizable price moderations thereafter, with the PURP index indicating some spikes and then a 4% decline in coverage retail prices over July.
- For us, notable retail price retrace may be underpinned by some delayed pass-through from increasing FX availability in the broader economy.
- Going by the index readings, urban retail prices rose 1.1% over June (vs. +1.5% MoM urban inflation reported by NBS).
- Retail price volatility, as measured by standard deviation from the mean, was greater in the commodities market.
- The consumer space saw the least price volatility in the review period.
- Despite the ubiquitous increase in prices across the segments, volumes were largely flat to increasing across board.

Figure 1: Historical changes in PURP index

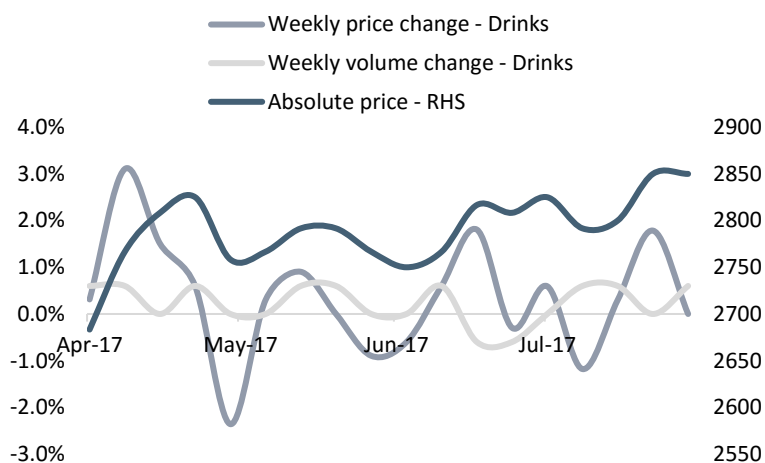


Source: Local markets, ARM Research

Retail Prices in the Brewery Space

According to our market intelligence, mean drink prices (per crate) has risen 3% in the last 18 weeks with Star beer (+14%), Gulder (+9%), and Satzenbrau (+9%) experiencing the sharpest increases in the space. The increases remain consistent with higher price campaigns across product portfolios in Nigeria Breweries Plc. (NB) and Guinness. Over the same period, retailers reported largely flat to increasing week on week volumes sold.

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

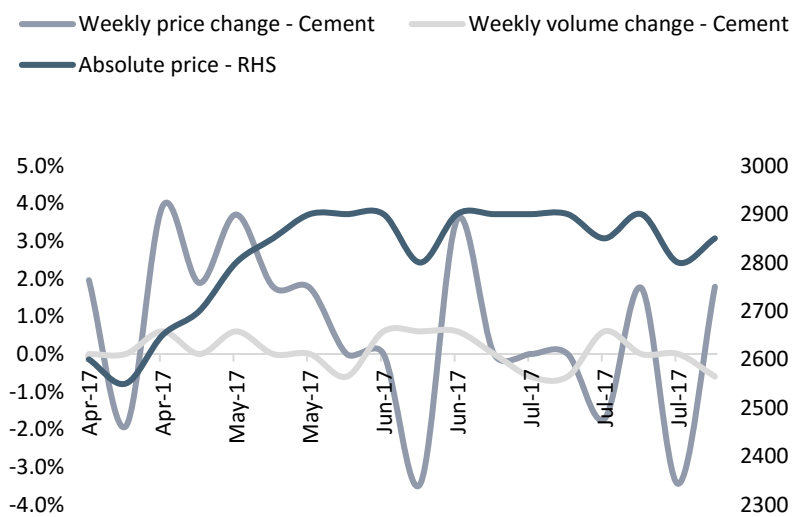


Source: Local markets, ARM Research

Retail Prices in the Cement Space

With prices increases at the heart of company performances in the cement sector thus far in 2017, it was no surprise to see retail price of cement dilate a stronger 12% to ₦2,850 per 50kg bag April through August. Further feedbacks also revealed an average retailers' margin of 15% on 50kg bag of cement in the 18 weeks period. Elsewhere, whilst data suggests flat-to-increasing cement volume sales in the first thirteen weeks of the period, rainfall-associated pressures got worse at the start of Q3 17 with our survey indicating flat-to-retracing volumes since the start of July.

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

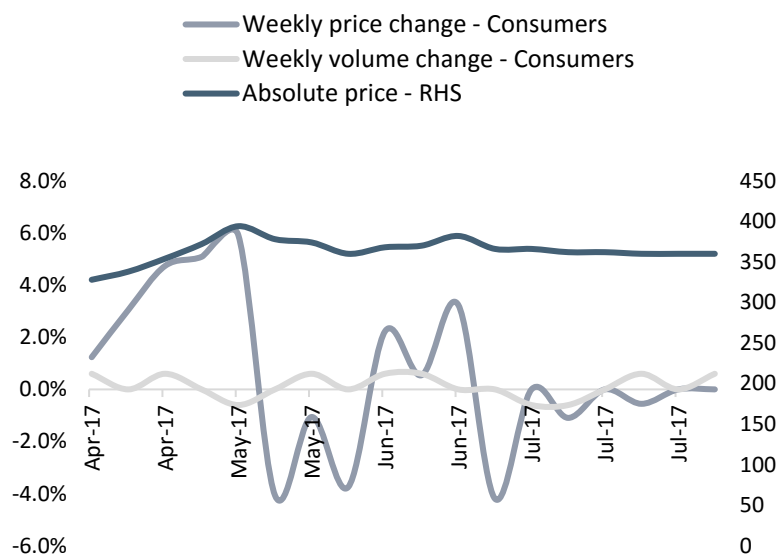


Source: Local markets, ARM Research

Retail Prices in the Consumers Space

Mean prices in our consumers' basket rose 10% over the last four months. The increase in the basket was mainly underpinned by strong growths in refined sugar prices (more than double to ₦250/250grams) and Lipton (+20% to ₦240 per 25 bags) which more than offset contractions in prices of Close up (-3% to ₦290/per 140 grams) and Blue band (-7% to ₦420 per 250 grams). According to market feedback, the strongest price increase in the basket occurred in the first week of May. On balance, we noticed that consumer response to price change was muted with retailers reporting largely flat-to-increasing weekly sales volume in the review period.

Figure 4: Historical movements in consumer space

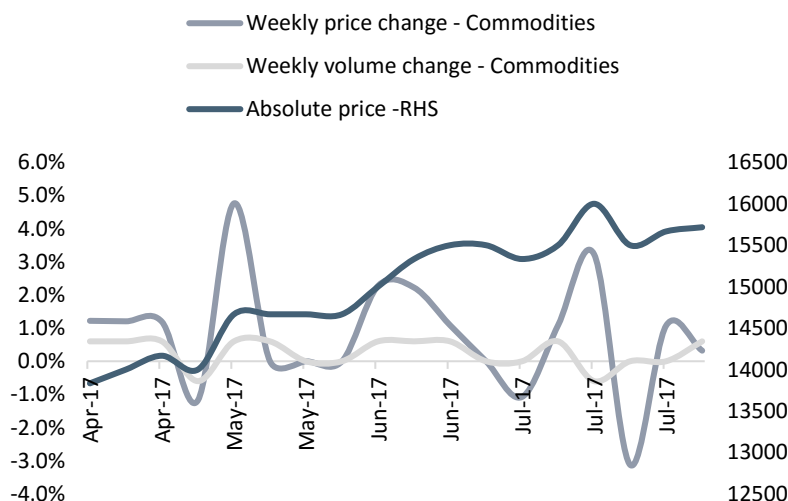


Source: Local markets, ARM Research

Retail Prices in the Commodities Space

After seeing the price of rice and crude palm oil accelerate 29% and 10% to ₦20,000/50kg bag and ₦11,000 per 25 litre respectively, mean prices in the commodities segment rose 15% between April and the beginning of August. Based on our findings, the highest price increase occurred in the first week of May and was largely reflective of increased crude palm and vegetable oils stock-piling (+6% week on week growth) ahead of anticipated pressures on commencement of Ramadhan. Over the period, retail sales volume was also higher for 56% of the time and stable for another 33%.

Figure 5: Historical movements in commodities space

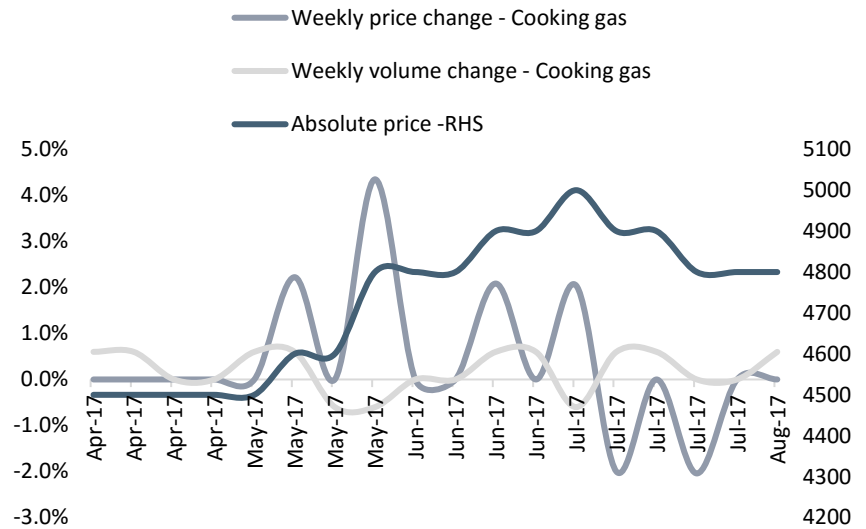


Source: Local markets, ARM Research

Retail Prices of Cooking Gas

After accelerating 11% to ₦5000 per 12.5kg in the first week of July, cooking gas prices commenced a downturn in the remainder of the review period (i.e. -4% to ₦4,800 in August). According to NBS, the eventual moderation in retail cooking gas prices reflected improved supply and distribution to markets. Despite the simultaneous increase in demand (i.e. retailers reported higher sales volume for 50% of the time), stakeholders are also not expecting supply shortages or significant upward drift in the price of the product in the near term.

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	55.30	85.00	-34.94%	SELL
Nigeria Breweries	156.49	184.00	-14.95%	SELL
Nestle	879.93	1210.00	-27.28%	SELL
Cadbury	-	12.70	-	NC*
Unilever	30.94	45.49	-31.99%	SELL
Dangote Sugar	17.75	13.00	36.54%	STRONG BUY
Dangote Cement	215.11	219.80	-2.13%	UNDERWEIGHT
Lafarge	52.33	58.50	-10.55%	SELL
CCNN	8.19	9.67	-15.31%	SELL
Forte Oil	61.44	50.00	22.88%	BUY
Conoil	40.18	33.89	18.56%	NEUTRAL
MRS	42.75	35.44	20.63%	BUY
Total	368.54	228.11	61.56%	BUY
11 Plc	194.23	225.06	-13.70%	SELL
Oando	-	6.86	-	NC*
Okomu	63.10	72.72	-13.23%	SELL
Presco	48.70	71.98	-32.34%	SELL

Source: ARM Research, NC* stands for Not Covered

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