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SECURITIES

PRESS RELEASE

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Retail sector in Angola set to grow by 8% as middle class expands rapidly

- Foreign retailers look to take advantage of market growth
- Shift from informal markets to modern retail network
- One of the few 'middle-income' countries in sub-Saharan Africa

The Angolan retail sector is forecasted to grow by 8% next year, increasing to US$ 30bn up from a forecasted US$ 28bn in 2014, making up 21.3% of the country's GDP up from 15% in 2002, thanks to the rapid expansion of the Angolan middle class, according to Eaglestone, an investment bank that focusses on sub-Saharan Africa.

According to Eaglestone's latest research on Angola's retail sector, the country's favourable demographics, economic growth prospects and political stability will lead to rapid growth in the retail sector, as new and existing retailers invest in the sector's potential.

Eaglestone explains that until recently, the retail sector in Angola has lagged behind other areas of the economy, held back by a small middle class. A high percentage of shopping was done at informal marketplaces and street vendors – which are often characterised by tax evasion and poor health standards.

Eaglestone says that the Angolan retail sector has benefitted from a decade long boom in the oil sector, leading to the rapid development of other sectors, reinforced by the process of urbanisation and the growing aspirations of the middle class.

Informal retail sector still accounts for up to 80% of market so significant scope for growth

Eaglestone explains that the retail market has historically been difficult to penetrate for formal retailers in Angola, with the informal sector accounting for around 90-95% of the retail sector at the end of the civil war. However, this has started to shift in recent years with 20-30% of retail activity now accounted for by the formal retail sector.

Eaglestone says that this shift to formal retailers has potential to accelerate rapidly as consumers become more demanding, and the Government takes steps to close or relocate informal market places.

Eaglestone adds that the demographic characteristics of Angola are an ideal fit with a retail company's key target market: a growing and young potential customer base together with a growing urban population. Official estimates suggest that the size of the current labour force is just a third of the size it is expected to reach in 2050.

Guido Varatojo dos Santos, Eaglestone Analyst, comments: “While Angola continues to rebalance its economy away from an overdependence on high oil prices, oil has started to transform the Angolan economy and in turn the retail sector. There is a considerable inflow of people moving from regional areas to city centres looking for new jobs.”

“Consumers in Angola are also changing. As the labour force becomes more skilled and disposable incomes increase, consumers are becoming more sophisticated. They are demanding, more brand conscious and willing to spend more on aspirational purchases.”

“Significant foreign investment is already being attracted into the retail sector but we expect more foreign players to enter as the market grows.”

New and current retailers looking to enter the market

Eaglestone says that several multinational retailers are being attracted to the sector, looking to capitalise on its potential growth.

Shoprite, a South African supermarket and discount store giant, international supermarket chain Spar, and Portuguese group, Teixeira Duarte are already present in Angola while other brands like Portuguese food and FMCG retailer, Sonae, is expected to open in 2015.

Kero – a wholly Angolan owned food and FMCG retailer – opened the biggest hypermarket in the country in 2012 and now has seven hypermarkets and three supermarkets, with plans to open two new hypermarkets in 2014.

Challenges still remain

Eaglestone explains that there are still significant challenges for the Angolan retail market to overcome:

- A lack of local production and processing means a high dependence on imported goods. Some estimate that 60% of the food consumed in Angola is imported, leading to higher prices.

- Angola’s current transport network and other infrastructure is underdeveloped making it difficult for retailers to penetrate some parts of the country and increasing costs.

- Complex customs rules and legislation make the importation of goods process lengthy and costly

- A new customs tariff regime (the Angola Customs Tariff Book) aiming to increase local production will increase trade barriers and may distort competition and disincentive innovation.

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About Eaglestone

Eaglestone was founded in 2011 with the dual aims of being a committed partner for the development of businesses located primarily in Sub-Saharan Africa and of supporting the development of renewable energy projects on a global basis. The company has three business activities — financial advisory services, advisory services for asset management and brokerage — and currently has offices in Amsterdam, Cape Town, Luanda, Lisbon, London and Maputo, employing 45 staff.

Eaglestone is developing five Sub-Saharan private equity funds and it has a 50% share in a renewable energy investment company based in Luxembourg. Its UK subsidiary is authorized and regulated by the FCA.

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