



The Retail Sector in Angola

Just the beginning

Starting to grow

Despite Angola's fast economic growth since the end of the civil war, only recently the retail sector started to develop. The main reasons behind this late start are the small weight of the Angolan middle class and the size of the informal market. According to local sources, the informal market is one of the civil war's consequences and when the war ended it weighed around 90% to 95%. However, in the last few years the retail sector has been growing fueled by encouraging economic prospects and favorable demographics.

It's all about demographics

Angola's demographics, growth prospects and political stability are the main reasons behind the attractiveness of the Angolan market. Currently, the Angolan population stands at c. 21 million and should reach 54 million by 2050 (source: United Nations). Moreover, Angola is characterized by an extremely young population and its working age population should expand faster than its overall population until 2085. The growing urbanization rate is another positive trend as urban population's income tends to be higher and it is easier to reach customers in urban areas.

And economics

Demographics become especially interesting together with Angola's upbeat growth prospects. The government's efforts and policies to promote economic diversification, growth and employment create a favorable outlook. The last few years have been impressive, with the GDP per capita (PPP) going from US\$ 2,603 in 2002 to US\$ 6,247 in 2013. Looking ahead, the forecasts are very positive with the IMF expecting GDP per capita (PPP) to stand at US\$ 8,074 by 2019.

Eager consumers

As the retail sector develops, the Angolan consumer is changing as well. Nowadays, the informal market weighs between 70% and 80% and consumers are becoming more demanding. They want higher quality standards, are more brand conscious and are willing to spend more in aspirational purchases. The demand for non-food retail is also growing, reflecting the emergence of a more modern and sophisticated middle class, which is a clear opportunity for specialized retailers.

Growing pains

The fast growth of the retail sector comes with several challenges attached. First, the lack of local production makes the country highly dependent on imported goods. According to some estimates provided by local players, around 60% of the food consumed in Angola is imported. Logistics is another troublesome issue due to insufficient transport infrastructures and excessive bureaucracy. For the Angolan authorities, to increase local production and improve the country's logistic structures are strategic priorities. However, it has not been easy to keep up with the country's fast growth.

Research

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EXECUTIVE SUMMARY

In the last few years the retail sector in Angola has been growing fast, with an increase of the available sales areas and the modernization of the sector. The players already present in Angola have ambitious expansion plans and several global players are looking very carefully to the Angolan market. However, this is a relatively recent trend, until a few years ago the retail sector was lagging behind the country's development.

In the last few years the retail sector has been growing fast

The retail sector's slow start is mostly related with the small size of the Angolan middle class and the weight of the informal market, between 90% and 95% by the end of the civil war. The civil war has taken its toll on the country's infrastructures and economic development. Moreover, the lack of infrastructures and the population displacement caused by the war, have led to a dramatic fall of local production. Without local production and a proper distribution network, the informal market started to prosper since most of the times it was the only place where the population could buy supplies.

The retail sector's slow start is related with the small size of the Angolan middle class and the weight of the informal market

With the end of the civil war the Angolan economy posted a strong growth, being able to increase its GDP per Capita (PPP) from US\$ 2,603 in 2002 to US\$ 6,247 in 2013. This has placed Angola in what is considered a middle-income country and well above the Sub-Saharan Africa average of US\$ 2,566. Authorities are fully committed to put in place the necessary policies and reforms to ensure the country's growth and economic diversification. Hence, the economic outlook of Angola continues to be extremely favorable with the IMF expecting GDP per capita (PPP) to achieve US\$ 8,074 by 2019.

Authorities are fully committed to put in place the necessary policies and reforms to ensure country's growth and economic diversification

The positive economic prospects together with Angola's demographic characteristics is what makes the country especially interesting for the retail sector. Angola is characterized by a growing and young population. According to the United Nations, Angola had population of c. 21 million in 2013 and should reach 54 million by 2050. Moreover, the working age population is expected to expand faster than overall population until 2085.

Angola is characterized by a growing and young population

Urbanization rates in Angola are also increasing as people move to urban areas looking for better jobs and to be closer to government services like education and health care. This is a positive trend for retailers as the urban population usually benefits from higher income and is characterized by more sophisticated consumers. Additionally, for retailers it is easier to achieve economies of scale when operating in urban centers.

Urbanization rates in Angola are also increasing

Despite the recent expansion of the retail sector in Angola, mainly since 2010, the lack of local production implies that Angola is highly dependent of food imports. Angola has a high agriculture potential, but the sector is characterized by subsistence farming, which explains its low productivity and the low usage of irrigation systems and greenhouses. The agriculture sector is one of the authorities' top priorities, given the necessity of increasing food security and to take advantage of export opportunities. The development of the retail sector may be the catalyst to a more market oriented production and to the necessary investments.

The lack of local production make Angola highly dependent of food imports

Supply chain costs in Angola are relatively high due to inefficient transport infrastructures and excessive bureaucracy. Road and rail density is extremely low in Angola, 5km and 0.22km per 100 square meters, respectively. To find adequate storage is hard and very expensive due to Luanda's high real estate prices and unreliable electricity and water supply. Customs rules and legislation create a lot of bureaucracy that make the importation process lengthy and costly. Despite the authorities' efforts and investments, this is an issue that must be addressed as quickly as possible as the high costs end up by being passed to the final consumer.

Supply chain costs in Angola are relatively high due to inefficient transport infrastructures and excessive bureaucracy

Despite the fast growth that the retail sector has been witnessing, we believe that this is just the beginning. The demand for modern super and hyper markets continues to grow as well as the demand for products with higher quality standards. The continuous migration from the informal to the formal market will fuel market growth and numerous regions are still waiting to be attended. Taking into account the expansion plans of the players in the market and the interest of some global players to go to Angola, M&A action should be expected in the medium term.

The demand for modern super and hyper markets continues to grow. M&A action should be expected in the medium term

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INTRODUCTION / HISTORY

Since the end of the civil war that Angola has been one of the fastest growing countries in the world, being currently the third largest economy in Sub-Saharan Africa. However, the retail sector had a slow start and only recently it started to accelerate. After years of considerable efforts from the Angolan government to develop the sector, private initiative seems now to be leading the way.

The retail sector had a slow start and only recently it started to accelerate

The small weight of the Angolan middle class and the considerable size of the informal retail sector are to blame for the sector's slow start. The informal sector refers mainly to street vendors or trade activities conducted in inappropriate places, disregarding health and hygiene rules and avoiding taxes. Nevertheless, it is important to bear in mind that the informal sector played, and still plays, an important socioeconomic role in numerous regions.

The small weight of the Angolan middle class and the considerable size of the informal retail sector are to blame

According to the document "History of the Ministry of Commerce", published by the Ministry of Commerce, the sector's development can be broken into three stages.

The first stage, comprehended between 1974 and 1984, is characterized by the country's loss of specialized commerce, logistic manpower and by the government monopoly of administrative and commerce organization. By 1977, the Angolan authorities created the Ministry of Domestic Commerce and the Ministry of Foreign Commerce. A public company was also created, "Empresa Pública de Abastecimento" (EMPA, "Public Supply Company"), which was responsible for managing the country's food supply (imports, wholesale and retail) and the country's hotels and restaurants. At last, 131 state economic units were created, from the nationalization of commercial companies, to improve the management and control of commercial activities. In 1982, legislation about the licensing of all commercial activity and market services was created. During this period Angola became member of the "African, Caribbean and Pacific Group of States" (ACP) and of the Common Fund for Commodities in 1975 and 1983, respectively.

The period between 1974 and 1984 is characterized by the country's loss of specialized commerce, logistic manpower and by the government monopoly of administrative and commerce organization

The second stage is comprehended between 1985 and 1995. In 1989, the domestic and foreign Ministries of Commerce merged into the Ministry of Domestic and Foreign Commerce. One year later the ministry incorporated the tourism sector and was renamed Ministry of Commerce and Tourism. This stage was characterized by: (i) the end of the State's monopoly over goods' supply and trade; (ii) the end of the fixed prices and margins regime; and (iii) the privatization and the redesign of the wholesale and retail trading networks. As a consequence of the liberalization of the commercial activity, the informal market started to proliferate. In 1990 Angola became member of the CODEX Alimentarius International.

In the period between 1985 and 1995, commercial activity was liberalized and the informal market started to proliferate

The third and last stage is comprehended between 1996 and 2007. In 1996 the responsibilities related with tourism and the hotel sector were transferred to the new Ministry of Hospitality and Tourism. The Ministry of Commerce and Tourism was then renamed Ministry of Commerce. During this period, the legal basis for the commerce sector and the regulatory framework for several commercial activities was developed. The procedures for importing and exporting goods were simplified, Angola's regional commerce departments adopted a franking system for invoices and a nationwide commercial permit was created. In addition, the National Commerce Committee and the "Programa de Reestruturação do Sistema de Logística e de Distribuição de Produtos Essenciais à População" (PRESILD, "Program of Restructuring Logistics and Distribution of Essential Products to Population") were created.

In the period between 1996 and 2007 it was developed the legal basis for the commerce sector and the regulatory framework for several commercial activities.

The PRESILD, explained in more detail later in the report, was created by the Angolan government in 2005 to deal with the difficulties to assure the supply of essential goods to the Angolan population. The program comprised not only investments in infrastructures for wholesale and retail, but also a new friendlier business legal framework. Despite the government's efforts, PRESILD struggled to achieve its objectives.

The PRESILD was created to assure the supply of essential goods

As previously said, the informal sector is an important component of the retail sector. It appeared in Angola as a consequence of:

- (i) Insufficient local production;
- (ii) Lack of a proper distribution network; and
- (iii) Mismanagement of importations.

These three reasons, together with poverty, led many people to the informal commerce as a way of subsistence. In several regions the informal commerce is an important supplier of the population, but also an important income source to numerous people. Therefore, the informal sector must be addressed very carefully in order to assure that the social balance in those regions is not affected.

The informal commerce is an important supplier of the population, but also an important income source to numerous people

In this context, the government has been trying to call the attention of the informal vendors for the need to register their activity and respect existing rules and legislation, as well as to pay taxes. At the same time, the government plans to act on all informal marketplaces by shutting them down or reallocating them, further away from city centers, and formalize them in exchange of better conditions. The best example is the famous Roque Santeiro marketplace, which was closed and relocated to Panguilla (21km north of Luanda) in 2010.

The government plans to act in all informal marketplaces by shutting them down or reallocating them

Despite the importance of the informal sector, since 2010 that Angola has been witnessing an accelerated expansion of the formal sector and private investment has replaced government's efforts. Existing brands have been expanding their networks and several new brands have entered the Angolan market in the last few years. Additionally, several international players have expressed their interest to operate in Angola. The most prominent examples are the Portuguese retailer Sonae and Walmart, through its South African subsidiary Massmart, both intending to start operations by 2015.

Since 2010 that Angola has been witnessing an accelerated expansion of the formal sector

Currently, Angolan brands and Shoprite seem to be the market leaders. And despite the known interest of major players to enter in the Angolan market, we believe that the local brands can maintain their leadership position. Their main advantage lies not only on the first mover advantage, but also on their privileged knowledge about the local market.

Angolan brands seem to be the market leaders and we believe they can maintain their leadership position

In our opinion, the main reason behind the sudden expansion of the sector lies in the fast middle class growth. Since the end of the war that Angola has been one of the fastest growing countries of Africa, but that was not enough. For the retail sector a bigger and more sophisticated middle class was necessary to attract private investment.

The main reason behind the sudden expansion of the sector lies in the fast middle class growth

The encouraging economic prospects and favorable demographics are the reason why so many retail companies are looking at Angola. In a context of economic growth, the middle class should continue to grow, as well as its disposable income. Nowadays, the Angolan consumer is spending more in aspirational purchases and is gradually becoming more brand conscious. The future seems bright. Hence, the companies that strengthen their presence and competitive position earlier will have an important competitive advantage.

The encouraging economic prospects and favorable demographics are the reason why so many retail companies are looking at Angola

Nonetheless, several challenges lie ahead. Angola is still not self-sufficient in terms of food, despite its high agriculture potential, and it lacks several basic infrastructures. The low local production forces operators to rely on imports, which is an expensive and very bureaucratic process. In addition, due to the poor infrastructures, implementing and operating a supply chain represents a tremendous challenge and is very costly.

Angola is not self-sufficient in terms of food and it lacks several basic infrastructures

SECTOR DESCRIPTION

DEMOGRAPHICS

Among all the reasons why Sub-Saharan Africa is in the radar of the retail industry, one of the most important is demographics. Demographics combined with political stability have led major players to look more carefully to the economic potential of the region.

Angola, like the remaining countries of Sub-Saharan Africa, is characterized by a young and growing population. According to the United Nations, the working age population in Angola is expected to expand faster than its overall population until 2085. This is mostly explained by the large number of young people in Angola, with 14 years old or less, that weighs c. 48% of the overall population (2010). At the same time, Angola has a very low weight of elderly people, less than 3%.

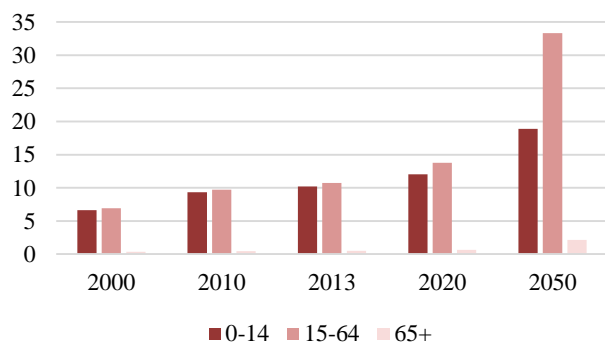
Angola's population has increased c. 3.4% per annum in the period between 2000 and 2013. This compares to population growth of 1.2% and 0.1% per year in the World and Europe, respectively. Angola's prospects are even more interesting for the coming years, as its population should register a 2013-2050 CAGR of 2.5%, while the World and European populations should register a 2013-2050 CAGR of just 0.8% and -0.1%, respectively.

Demographics and political stability have led major players to look carefully to the potential of the region

Working age population in Angola is expected to expand faster than its overall population until 2085

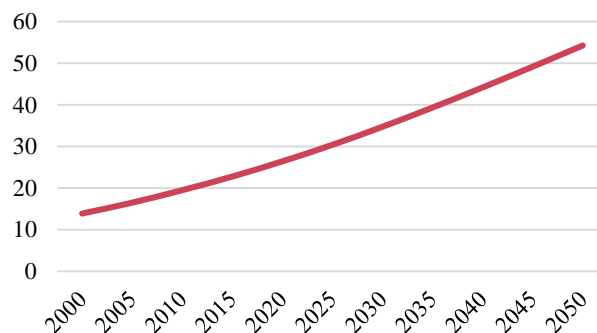
Angolan population should register a 2013-2050 CAGR of 2.5%

ANGOLA'S POPULATION AGING PROFILE (MILLION)



Source: United Nations.

ANGOLAN POPULATION (MILLION)



Source: United Nations.

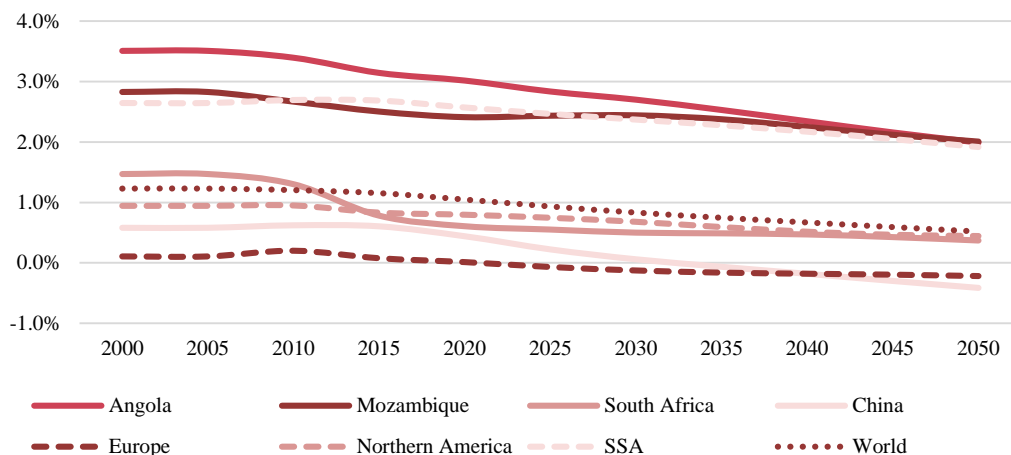
According to the United Nations, Angola had a population of 21.5 million in 2013 and should reach 54.3 million in 2050. These figures are impressive, mainly when compared with the demographic trends of the developed world.

Angolan population should reach 54.3 million in 2050

The Total Fertility Rate (TFR) in Angola stood at 6.5 children per women, in the period between 2005 and 2010. Angola registered the 8th highest TFR in the World. In the same period, United Nations' "more developed regions" (Europe, Northern America, Australia/New Zealand and Japan) TFR stood at 1.66. Even in the period between 2045 and 2050, Angola should register a TFR of 3.15, against 1.85 in the United Nation's "more developed regions".

Angola registered the 8th highest Total Fertility Rate in the world between 2005 and 2010

POPULATION GROWTH RATE

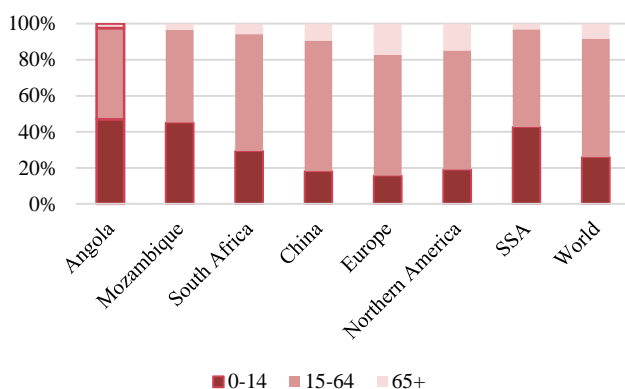


Source: United Nations and Eaglestone Securities.

The fact that even in the period between 2045-2050 Angola has a one of the highest FTR in the world, the 17th, means that Angola will continue to have one of the youngest age profiles. If we compare with other countries and regions, it is easy to see that the aging profile of Angola and Sub-Saharan Africa countries stands out due to the small weight of the population with 65 years old or more.

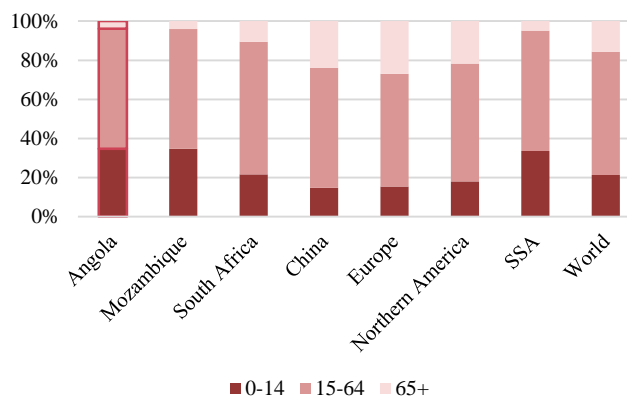
The aging profile of Angola stands out due to the small weight of population with 65 years old or more

AGING PROFILE (2015)



Source: United Nations.

AGING PROFILE (2050)



Source: United Nations.

For companies in the retail sector, this aging profile is very attractive: a growing population means that the potential customer base is also growing. But the potential of Angola’s demographics goes beyond that. The fact that a large part of the Angolan population is today below working age, c. 48% of total population, should have two positive effects in the future: (i) higher productivity; implying (ii) higher consumption spending in the country.

48% of total population in Angola is below working age

The young profile of Angola’s population and the increase of working age population means lower dependency ratios in the future. The dependency ratio is an age-population ratio of those not in the labor force, below 15 and over 64, over those in the labor force. The greater the dependency ratio, the greater the pressure on productive population in order to raise funds towards the dependent population.

The increase of working age population means lower dependency ratios in the future

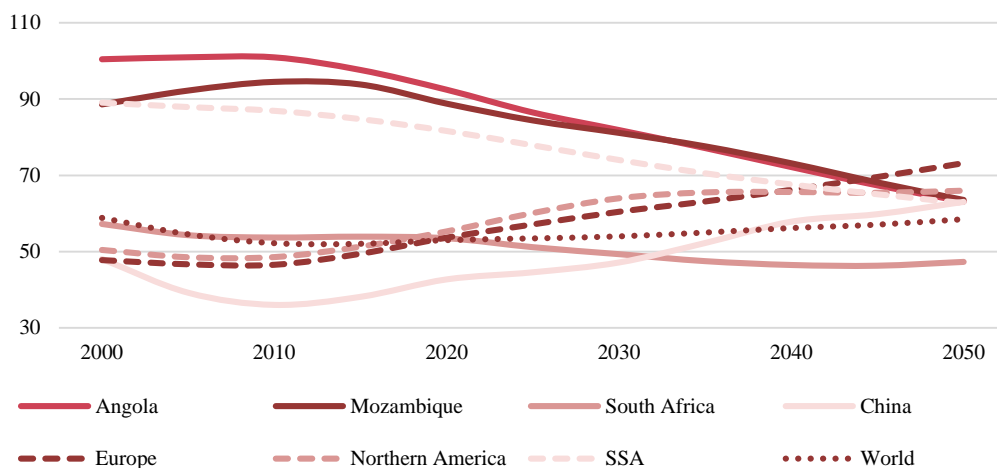
Although the current dependency ratio of Angola is quite high, around 98%, this is mostly explained by the 48% of the population that is less than 15 years old. This means that the dependency ratio will start to decrease in the coming years as the younger population gradually joins the labor force. By 2050, the dependency ratio of Angola should stand around 63%. On the other hand, Europe has today a dependency ratio of 49% that should reach 73% by 2050.

Currently Angola has a dependency ratio of c. 98%. By 2050, it should stand at 63%

The high dependency in Angola today will mean higher productivity in the future. Moreover, as the dependency ratio decreases, less resources will be needed to address the needs of the dependent population. In Europe, the dependency ratio will increase mainly due to the elderly population, which means that more and more resources will have to be directed towards the dependent population.

As the dependency ratio decreases, less resources will be needed to address the needs of the dependent population

DEPENDENCY RATIOS



Source: United Nations.

In Angola, the majority of the resources spent on the dependent population are education and health related. It is known that education is one of the priorities of the Angolan authorities. Nowadays, students are being provided with more and better education. This should have a positive impact for the economy as a whole, as the labor force becomes more skilled, but also for the retail industry in particular. Not only because of an expected increase in the disposable income of these individuals, but also because these consumers are expected to be more sophisticated and demanding.

Another positive trend for the retail industry is the increasing urbanization rates. The development stage of the most important cities of Angola is much more advanced than the rest of the country. Consequently, there's a considerable inflow of people from the rural regions towards city centers, looking for better jobs and to be closer to government services such as education and health care.

There's a considerable inflow of people from the rural regions towards city centers, looking for better jobs and to be closer to government services. Urban population tend to benefit from a much higher income and to be more concerned about its purchases' characteristics

Urban population's income per capita tends to be much higher than rural population's income. Therefore, urban population tends to spend more on goods and services. They are also characterized by higher sophistication, thus more concerned about their purchases' characteristics, like quality and brand. Additionally, for retail companies it is easier to achieve economies of scale when operating in urban centers.

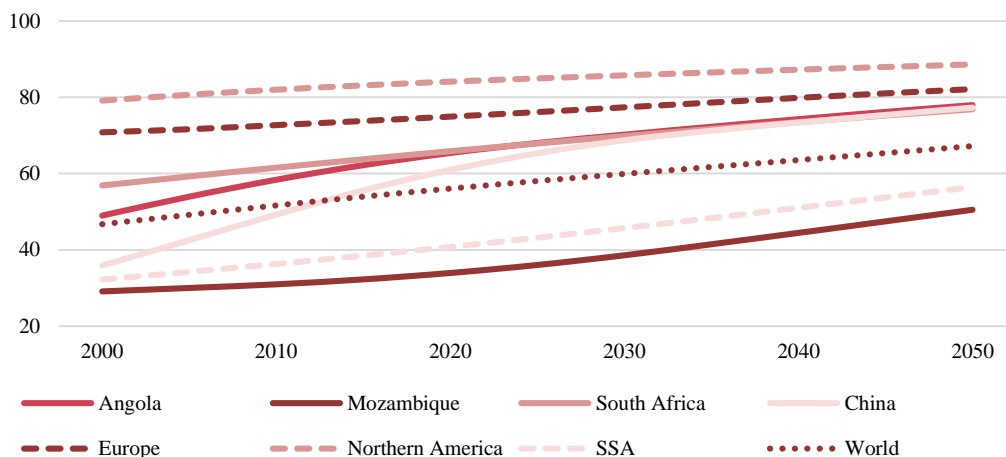
Investments in infrastructure have been one of the biggest creators of employment in Angola

Growing urbanization rates have also pushed for considerable investments in construction and basic infrastructures, like roads, water and electricity supply. These investments in infrastructure are not only beneficial for the development of the retail sector, but they have also been one of the biggest creators of employment in Angola. And employment translates into consumption.

As it is well known, for retail companies it's easier to achieve economies of scale when operating in urban centers. It is easier and cheaper to reach customers and simpler to manage their supply chain. Hence, the growing urbanization rates is one of the strengths of the Angolan retail sector.

The growing urbanization rates is one of the strengths of the Angolan retail sector

PERCENTAGE OF POPULATION RESIDING IN URBAN AREAS



Source: United Nations.

Concluding, the demographic characteristics of Angola are exactly what a retail company looks for: a growing and young potential customer base together with a growing urban population. In fact, Angola is probably in the sweet spot: the size of the labor force today is just around 32% of the size that it is expected to have in 2050. For retailers that arrive early at the Angolan market, they have the opportunity to take part in the consumer education process and to strengthen their competitive position. This allows them to create a reputation and a brand awareness that will be harder to achieve later.

Retailers that arrive early at the Angolan market will have the opportunity to take part in the consumer education process and strengthen their competitive position

Nevertheless, this demographic profile is only attractive when combined with a favorable economic environment. A country's economy does not grow simply through more population. Angola's attractiveness is conditional on the job market being able to keep up with working population growth. In addition, Angola has to put in place the necessary economic policies and reforms to assure that productivity increases, so that the income per capita increases as well.

Angola has to put in place the necessary economic policies and reforms to assure that productivity increases

ECONOMY

Not only demographics make Angola a very attractive country. Angola is an interesting case also because of its recent growth, one of the fastest growing countries in the world in the last decade, and, most of all, due to its favorable growth prospects.

Angola has very optimistic growth prospects

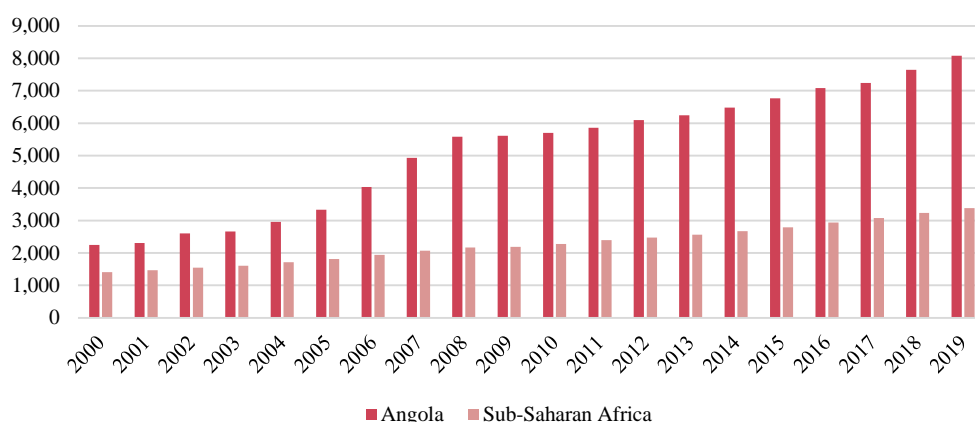
The “Angola 2025” vision aims to promote economic diversification and the Angolan authorities are fully committed to ensuring the country’s stability, growth and employment in the long run. The efforts to promote Angola’s economic diversification and to put in place the necessary economic policies and reforms, create a favorable outlook for economic growth.

Authorities are fully committed in ensuring country’s stability, growth and employment in the long run

The economic growth in Angola has been impressive, with the GDP per capita (PPP) going from US\$ 2,603, at the end of the civil war in 2002, to US\$ 6,247 in 2013. Thus, putting Angola in what is considered a middle-income country and well above Sub-Saharan Africa average. This growth has been fuelled by the government’s efforts to rebuild the country, mainly through its Public Investments Program (PIP), and the high commodity prices in recent years.

Growth in Angola has been impressive, with the GDP per capita (PPP) going from US\$ 2,603 in 2002 to US\$ 6,247 in 2013

GDP BASED ON PPP PER CAPITA (US\$)

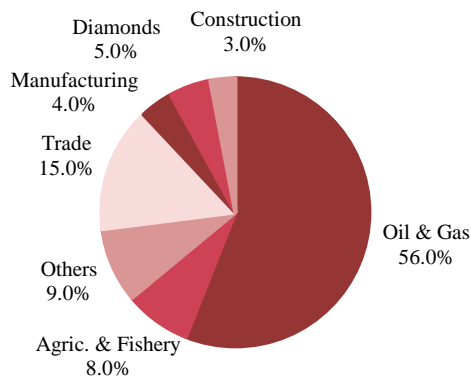


Source: IMF.

The main challenge of the Angolan economy seems to be its diversification. The oil and gas are the main contributors for the country’s GDP. The GDP structure in Angola is already changing: the oil and gas accounted for 48.2% of the GDP in 2012, against 56% in 2002. On the other hand, the sector that has grown more in the last few years has been “Construction” due to the investments made by authorities in infrastructures. The “Trade” sector has also been registering a positive trend as its weight on GDP went from 15% in 2002 to 20.5% in 2012.

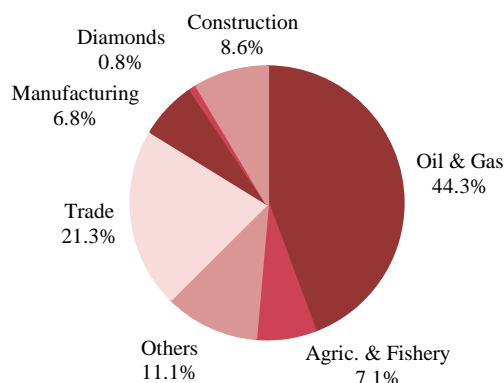
The main challenge of the Angolan economy seems to be its diversification

GDP STRUCTURE (2002)



Source: World Bank and Eaglestone Securities.

GDP STRUCTURE (2015F)

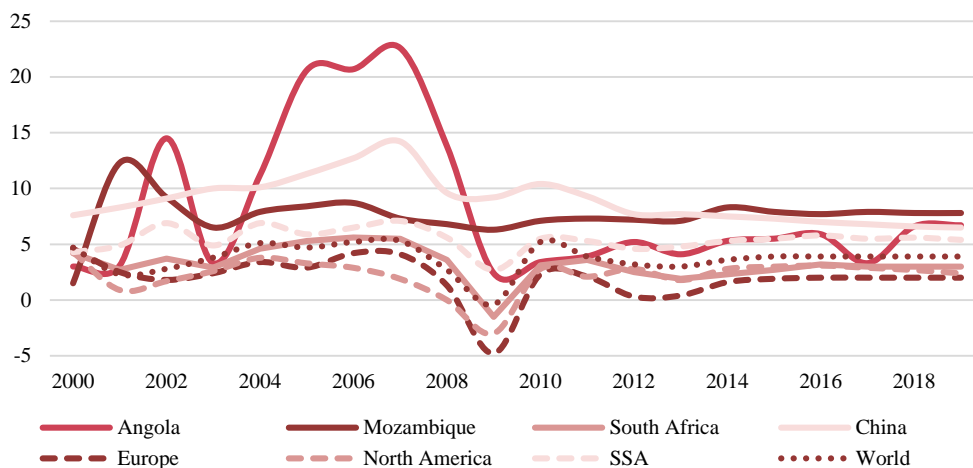


Source: World Bank and Eaglestone Securities.

Despite the challenges ahead, the forecasts for the Angolan economy are very positive, with real GDP growth above what is expected for Sub-Saharan Africa. Expectations are that Angola will be able not only to make its economy grow, but to take this growth to its population. Hence, improving its population's living standards and fuel the growth of the country's middle class, which will push private consumption up.

Angola will be able not only to make its economy grow, but to take this growth to its population

REAL GDP GROWTH (%)

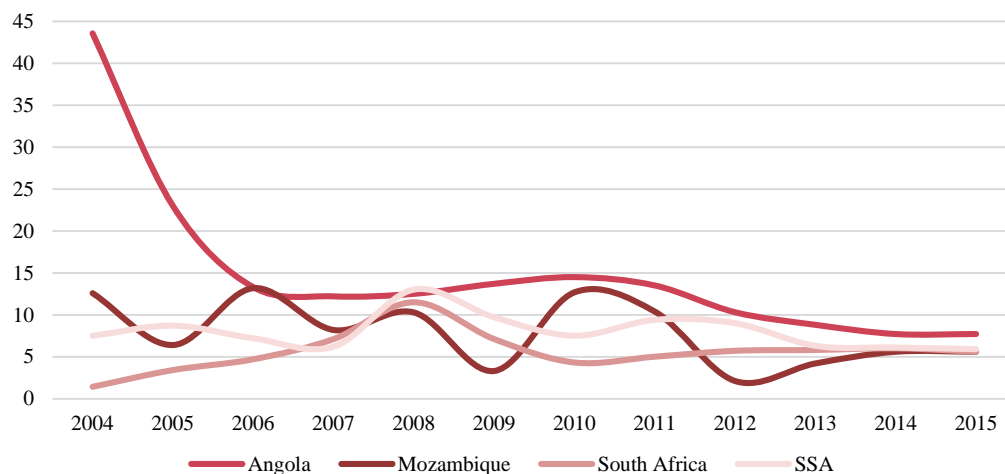


Source: IMF.

Inflation control in Angola is another key factor for the optimism around the retail sector. Inflation is now single-digit, partly due to the Central Bank's (BNA) ability to support the exchange rate. Despite some structural inflationary pressures, due to Angola's reliance on food imports and weak infrastructures, the BNA is expected to adopt a relatively cautious monetary policy. Therefore, consumer price growth is likely to remain in the single-digits in the next couple of years.

Consumer price growth is likely to remain in the single-digits in the next couple of years

CONSUMER PRICES, AVERAGE (ANNUAL % CHANGE)



Source: IMF.

Even though inflation acceleration may provide retailers some additional bargaining power, this tends to be just a short-term advantage. In the medium to long term, high inflation levels end up by harming consumer's disposable income and pressuring ticket values. Thus, causing high nominal growth in some retailers, but real growth will be much lower.

In the medium to long term, high inflation levels end up by harming consumer's disposable income

THE ANGOLAN MARKET AND CONSUMER

The Angolan market has been growing fast in the last few years, but it still has a long way ahead. The Angolan retail sector is most of all characterized by a small retail network and a large informal sector. Looking at the rural regions, the retail network is even smaller and the informal sector bigger.

The Angolan retail sector is characterized by a small retail network and a large informal sector

Angolan consumers have been going through an adaptation process. One example is the habit to buy in bulk. Due to the long war period, Angolans got used to buying in bulk since it was not possible to predict when a given product would be available again. This also made Angolan consumers very sensitive to the expiry date in some products. In several regions, people are more used to the informal market and even when more modern options are available, they continue to prefer the informal market. Although a new and more sophisticated generation of middle class consumers starts to emerge, the adaptation process of older consumers may be a lengthy process: Old habits, die hard.

Although a new and more sophisticated generation of middle class consumers starts to emerge, the adaption process of older consumers may be a lengthy process

The informal market has a considerable weight in the Angolan economy and for the lower social classes it continues to be their preferred place for shopping. There are no official figures regarding the informal market, but estimates indicate that the informal sector weighed around 90% to 95% by the end of the civil war. Nowadays, this figure should stand at around 70% to 80%. These figures are probably lower in urban areas, especially in Luanda where the disposable income of the population is much higher than in other areas.

Nowadays, the informal sector weights around 70% to 80%

The informal market operates without any kind of registration or license and disregard hygiene and health regulation and laws. The informal market is also characterized by tax evasion, which allows it to have better prices in some products at the expense of state revenues. It lacks proper storage conditions: food is often placed on the ground and exposed to the sun. In the informal market it is possible to find a bit of everything, from food to tobacco, or even to buy mobile phone airtime.

Informal market operates without any kind of registration or license and disregard hygiene and health regulation and laws

It is important to bear in mind that most of the customers of the informal market are people from the disadvantaged social groups, which are highly price sensitive. In this market it is not uncommon to see products whose expiry date already passed being sold or goods that have been repackaged to be sold individually or in smaller quantities. In fact, for a considerable number of Angolan consumers, price is the most important factor and not hygiene or health rules.

Most of the costumers of the informal market are highly price sensitive

One could expect that the solution to this problem would simply be to shut down the informal marketplaces. However, it is not that trivial. First, it is important to understand that the informal market started to grow during the war period when it was extremely difficult to guarantee the delivery of goods across the country. Due to the civil war, several constraints arose:

The informal market appeared during the war period, when it was difficult to guarantee the delivery of goods across the country

- (i) Insufficient local production;
- (ii) Lack of a proper distribution network; and
- (iii) Mismanagement of importations.

The informal market was able to surpass these difficulties by using parallel, even illegal, suppliers and through smuggling. This meant low fixed costs, no taxes and to sell whatever was available.

Informal market plays an important socioeconomic role

Second, we should keep in mind the socioeconomic role that the informal market played in Angola and still play in some regions. For years, the informal market was the only way the Angolan population had to acquire goods, especially essential products. It also became a considerable source of employment, with numerous families depending on it to survive.

Given the size and the role of the informal market, we believe that the solution should not be its simple ban, but instead a gradual migration from the informal to the formal market. This migration should contemplate not only consumers, but also the people depending of the income generated by informal market activities.

The solution should be a gradual migration from the informal to the formal market

In our opinion, the migration of the consumers will be a natural process and does not arise as a big concern. As the Angolan population's disposable income increases, it will start to demand higher quality and more diversity. In addition to this, the younger generation will have a higher education level and will be more exposed to the globalized world, thus more sophisticated, keener to aspirational spending and more brand conscious.

The migration of the consumers will be a natural process

The migration of the people whose income is generated by the informal market is a bit more complex and subtle. Despite the fact that most of the informal vendors do not respect trade related rules and laws, authorities should try to migrate these people to the formal market in a friendly and gradual way. As these people's income depends of the informal market, it is important to assure that they have the possibility of enjoying another source of income, to avoid creating any social crisis in the country. One natural solution is to try to migrate these people to the formal market, taking advantage of their know-how in the informal market.

It is important to assure that people whose income is generated by the informal will have the possibility of enjoying of another source of income

Angolan authorities have already been acting over some informal marketplaces by shutting them down or relocating those marketplaces, usually from near the city centers to the outskirts. One of the most prominent examples is the reallocation of the Roque Santeiro market, one of the most popular in Luanda, in 2010 to a location almost 21km north of Luanda. The new markets, usually created by municipal authorities, are provided with better conditions and authorities try to enforce the fulfillment of some basic hygiene rules. Basic examples are the existence of rooftops, cement floor, and the mandatory use of aprons and hair covers. Every marketplace has a municipal administrator and vendors must register with him.

Angolan authorities have been shutting down or relocating informal marketplaces

Despite the Angolan authorities' efforts, the process will be long and slow. There are several barriers to the formalization of all the activity and at the end of the day the process must be driven by consumers. Several vendors complain that the fees they have to pay to sell in a formal market are too high, so either they go to street markets or they will not make profit. On the other hand, Angolan authorities cannot just provide better conditions without charging any kind of fee or taxes.

Consumers should be the main driver behind the formalization process

The objective of ending with the informal market and the necessity of a gradual migration implies a delicate balance during the transition. It is our belief that the most important factor for the growth of the formal market, and the consequent migration, are the consumers. At the end of the day is a matter of demand and supply, so while there is demand for cheaper products, mainly food, there will be supply for it, even if at the expense of quality standards.

The most important factor for the growth of the formal market, and the consequent migration, are the consumers

The economic growth and investments that Angolan authorities are making in education will decrease poverty and boost the growth of the middle class, with more sophisticated consumers. This new generation of consumers will be more demanding in terms of quality, mainly regarding food. Consumers will search for a better shopping experience and be more brand conscious. Most of all, they will have the possibility to pay for higher quality standards. Thus, as the middle class grows, consumers will naturally shift from the informal to the formal market.

As the middle class grows, consumers will naturally shift from the informal to the formal market.

It is important that authorities create conditions and give opportunities for the informal market vendors to move voluntarily to the formal market. The shift of consumers will, probably, create a similar movement by the vendors. The Angolan authorities should promote training programs to take advantage of their know-how, making the shift easier and avoiding any social disturbance.

The shift of the consumers, will probably create a similar movement by the informal market vendors

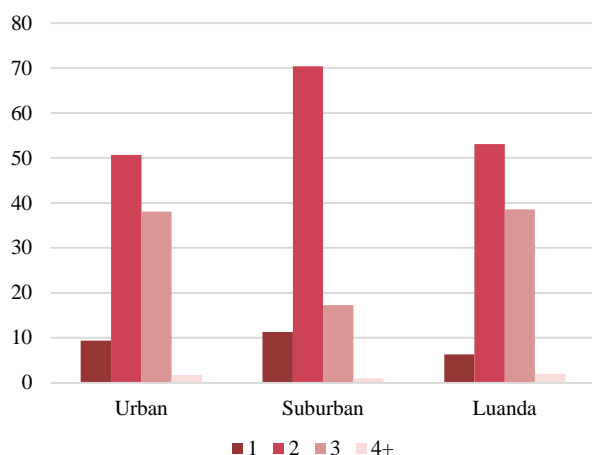
As the middle class grows, two beneficial effects will make easier for vendors to succeed and make a profit in the formal market. First, more consumers will go to the formal market and they'll be willing to spend more money in higher quality products. Second, as the formal market grows it will be possible to achieve economies of scale, making it easier for vendors to make a profit out of their sales. Consequently, the fees to operate in the formal market will be more affordable.

As the middle class grows, it will be easier to migrate vendors from the informal to the formal market

However, we believe that the migration process described above will be a two-speed process. In Angola the development gap between urban and rural areas is considerable. As a result of the strong investments in Angola's major cities, the urban population enjoys better quality standards, higher incomes, higher educational levels and more growth opportunities. Additionally, these investments mean better logistic infrastructures, which implies considerably lower costs to supply a retail network in the urban areas. Given this, the formal market should grow considerably faster in urban areas, while in rural areas some government efforts are probably still needed to create conditions for the formal market to develop in a sustainable way.

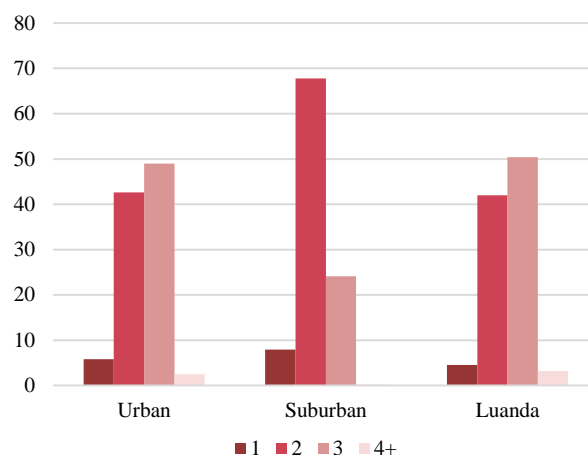
The migration from the informal to the formal market will happen much faster in urban areas

NUMBER OF MEALS PER DAY (2005/2006)



Source: INE Angola.

NUMBER OF MEALS PER DAY (2011)

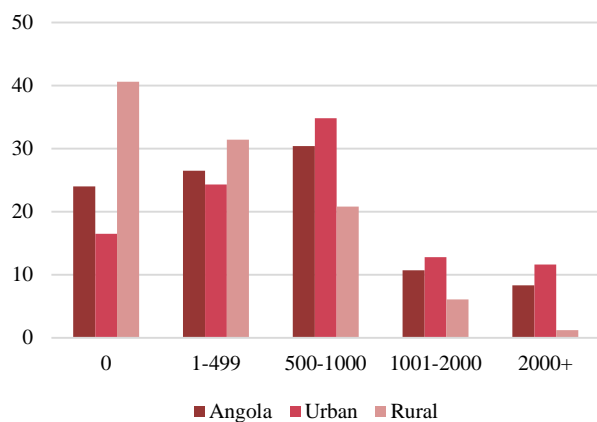


Source: INE Angola.

The different consumption patterns between urban and rural areas is clear. In 2011, while 50.5% of the urban population did at least three meals per day, in the rural areas this figure stood at 24.3%. However, it should be noticed the positive evolution of this indicator across all regions. Nationwide the percentage of people having at least three meals per day increased from 31% to 39% between 2005/2006 and 2011.

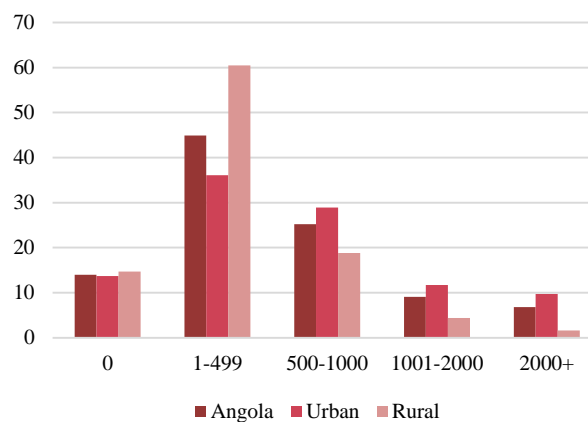
There are clear differences between the consumption patterns of urban and rural areas

AVERAGE HOUSEHOLD WEEKLY SPENDING ON MEAT (AOA, 2011)



Source: INE Angola.

AVERAGE HOUSEHOLD WEEKLY SPENDING ON FISH (AOA, 2011)



Source: INE Angola.

Due to the differences in the disposable income in each region, there are also considerable differences in the consumption of meat and fish. While on average more than 50% of the urban households spend more than AOA 500 on meat and fish, less than 30% do it in rural regions.

In terms of food it is also necessary to take into consideration that a considerable amount of households in Angola does not have electricity supply, nor fridge. According to INE, in 2011, 60% of the urban population had electricity in their households, while in the rural areas only 3.9% of the households had access to electricity supply. Only 32.1% and 2.1% of the urban and rural households, respectively, had a fridge. This fact is a considerable limitation for the consumption of fresh food. Moreover, fresh food is usually more expensive given the difficulties to transport it across the country due to the lack of a proper transport infrastructure and warehouses with cold storage.

A considerable number of households does not have electricity supply, nor fridge, mainly in the rural areas

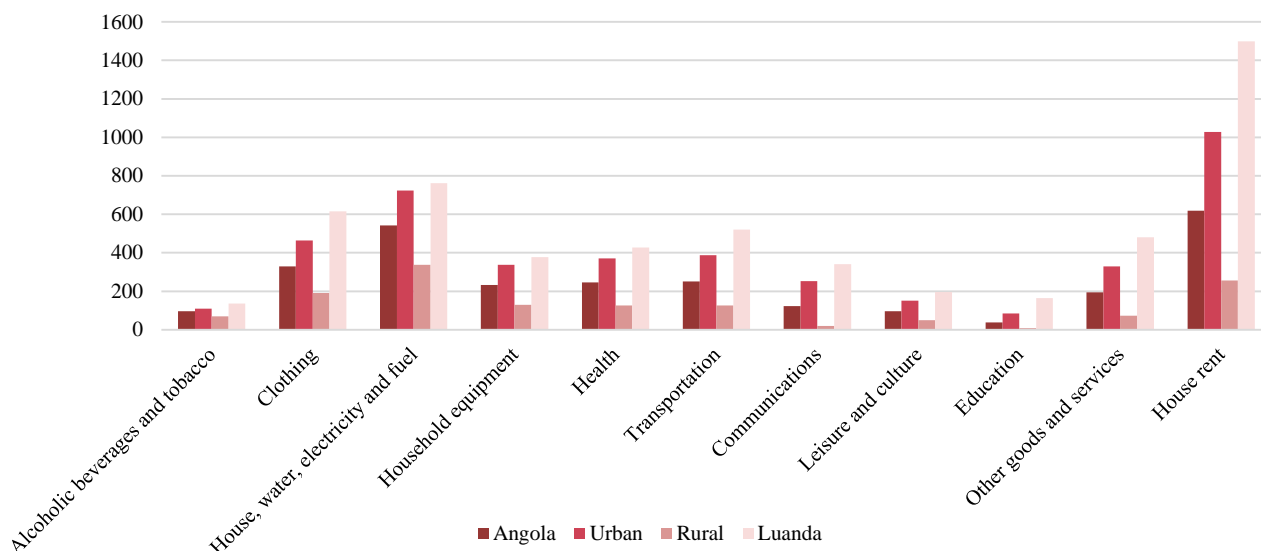
The different consumption patterns are not exclusive to food and there are clear differences between how the urban and rural populations distribute their household expenditures. According to INE's "Inquérito Integrado sobre o Bem-estar da População" (IBEP, "Integrated Survey on The Welfare of the Population"), in 2008/2009, the average monthly expenditure per person of the Angolan population was of AOA 6,449 (US\$ 72.2). More specifically, AOA 8,419 (US\$ 94.2) and AOA 4,061 (US\$ 45.4) for the urban and rural population's, respectively. On average, around 57% of household expenditures are on food. In urban regions this percentage decreases to 50%, while in rural regions food expenses account for c. 66% of total household expenditures.

In urban areas c. 57% of household expenditures are in food, while in rural regions food expenses account for 66%

The development of a retail network that reaches rural areas is a considerable challenge for the Angolan authorities. To economically develop the rural regions, further investment on basic infrastructures is needed. These regions cannot be truly competitive and grow if they are not provided with basic infrastructures like power and water supply and a transportation network. Without these, the disposable income and living standards will struggle to improve. At the same time, supplying these regions will carry higher costs, which end up by being reflected in the prices that consumers pay. Consequently, rural regions are not attractive for retail players due to a weaker revenue profile and higher supply costs.

To develop rural regions, further investment in basic infrastructures is needed

AVERAGE HOUSEHOLD CONSUMPTION PATTERNS (AOA, EXCLUDING FOOD, 2008/2009)



Source: INE Angola.

In the urban areas, mainly Luanda, there seems to be a growing demand for specialized retail. In these regions people are able to allocate a bigger share of their income to non-essential goods. Nowadays, in urban areas an increasing demand for imported goods and international brands is already noticeable and aspirational spending should continue to grow in the coming years. Moreover, African consumers, and Angolans are no exception, are traditionally very optimistic and tend to allocate a bigger share of their income to aspirational purchases. On the other hand, in rural regions retailers should, for now, focus mainly in the food distribution segment.

In urban areas there seems to be a growing demand for imported goods and international brands

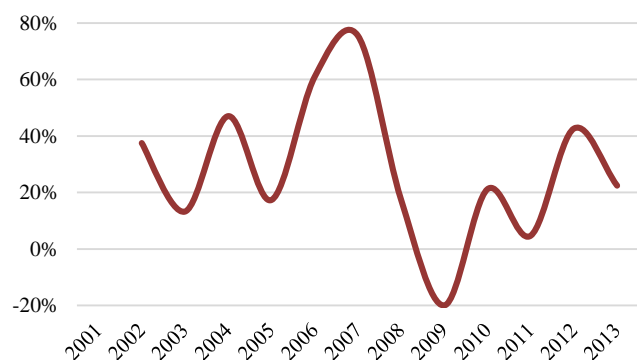
The evolution of non-food imports reflect the emerging middle class. The imports of IT-related goods, clothing, furniture and sports equipment, just to name a few, have registered CAGR 2003-2013 between 15% and 26%. The demand for non-food items, mainly the ones related with aspirational expenses, should continue to grow in the coming years supported by the Angolan economy growth.

Non-food imports have been growing in the last few years and should continue to grow

The growing demand for non-food retail indicates a clear opportunity for specialized retailers and shopping center operators. Mainly in Luanda, where living standards are higher than in the remaining country, not only due to a growing middle class but also due to the existing expatriate community.

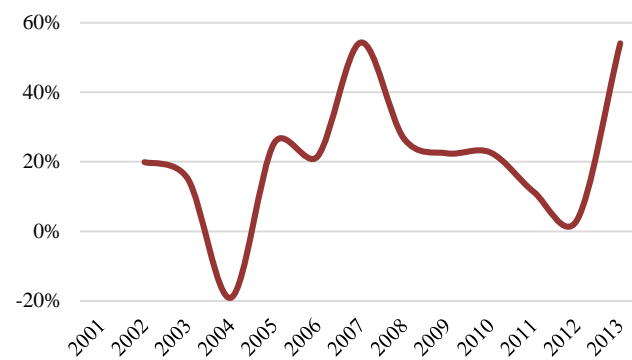
There is a clear opportunity for specialized retailers and shopping center operators

SPORTS EQUIPMENT IMPORTS GROWTH (YOY %)



Source: Trade map.

FOOTWEAR IMPORTS GROWTH (YOY %)



Source: Trade map.

Since the Angolan retail sector is still in a relatively early stage of development, price is not the main differentiation factor. There is a relatively low number of food retail stores, which makes location one of the most important characteristics for consumers. Additionally, it is important to bear in mind that Angola has a weak transport infrastructure and public transportation system. In particular, traffic in Luanda is a major problem, usually very congested, and people end up shopping as closely as possible to home or work.

Location is one of the most important characteristics and not price

Moreover, given the limited number of food and non-food retail stores, product offering and quality is equally important. Not all supermarkets are able to have a complete range of products, mainly fresh food, and a wide variety of brands. So, super and hyper markets are usually evaluated on the basis of their product offering and quality. This is even more important given the difficulty that a consumer feels if he has to go to another store to search for a certain product.

Retailers are usually evaluated on the basis of their product offering and quality

The majority of the consumers of the formal market, mainly the modern super and hyper markets, want certain quality standards and fresh products. They are not so price sensitive as the typical Angolan consumer. This fact centers competition on location and product quality. Only when the less favored classes start to gain weight on retailers' client base, prices will be a differentiating factor and price competition will kick in.

Competition in the formal market is centered on location and product quality

PLAYERS

PRESILD

The “Programa de Reestruturação do Sistema de Logística e de Distribuição de Produtos Essenciais à População” (PRESILD, Program for Restructuring the System of Logistics and Distribution of Essential Products to the Population) was created in 2005 by the Angolan authorities. Its main goals were to assure that all Angolan population had access to essential goods and to boost local production. To do so, the PRESILD program comprehended the creation of wholesale and retail networks and the investment in the infrastructures necessary to distribute goods across the country and to support local production.

PRESILD’s main goals were to assure that all Angolan population had access to essential goods and to boost local production

When it was formally launched, the objectives of PRESILD were: (i) assure regular supply, thus price stability, of essential goods; (ii) decrease or eliminate the consequences of monopolies on essential goods; (iii) support the growth of domestic production; (iv) improve essential goods’ quality and sales points’ hygiene conditions; and (v) gradual transformation of informal trade into formal and organized trade.

Angolan authorities believed that it was necessary to act on three different fronts to assure the development of the trade sector in Angola.

Authorities wanted to act in three fronts

First, it was necessary to create a legal framework to regulate trading and commerce, and also to create an incentive framework for the rehabilitation, construction, development and transformation of commercial infrastructures.

First, to create a legal framework to regulated trading and commerce

Second, to create physical infrastructures to support the trading and commercial activity in the wholesale and retail markets. For this purpose, the authorities wanted to deploy an integrated logistics and distribution network, a supermarket chain (“Nosso Super”), proximity stores (“Poupa lá”) and municipal markets.

Second, to create physical infrastructures

Third, provide training, qualification and increase the professionalization of all the economic agents in the sector.

Third, to provide qualification

Given the sector’s underdevelopment, the Angolan authorities thought that it was necessary to promote the investment in infrastructures, namely the ones related with logistics, distribution, supermarkets and proximity stores. Despite this, the Government didn’t want to be a sector player, but only to set the guidelines and provide the means necessary for the sector’s development. In this context, the State’s intention was to keep the ownership of the infrastructures, but to grant the concession of those infrastructures to private companies.

Government wanted to set the guidelines and provide the means for the sector’s development

The initial plan estimated a total investment of US\$ 3.8 billion and the construction of 285 commercial infrastructures until 2012. However, in 2009, due to the financial crisis, Angolan authorities announced that the total investment was going to be reduced to US\$ 1.5 billion and only 65 infrastructures would be constructed. By then, authorities had already invested US\$ 600 million and completed 48 infrastructures.

The initial plan was to invest US\$ 3.8 billion, revised downwards to US\$ 1.5 billion in 2009

For the wholesale network, PRESILD comprehended the construction of 8 Logistics and Distribution Centers (CLOD, “Centros logísticos de distribuição”) and 1 supply market. The CLODs should have all the necessary logistics and distribution related equipment to allow an efficient transport of all locally grown and manufactured products from the source to the consumptions centers.

PRESILD comprehended the construction of logistics and distribution centers

As previously said, the retail network was composed by three main concepts: (i) the supermarkets network “Nosso Super”; (ii) the proximity stores network “Poupa Lá”; and (iii) municipal markets. The management of the “Nosso Super” supermarkets was given to the Brazilian company Odebrecht and the “Poupa Lá” stores to the “Entrepósito Aduaneiro de Angola”.

The retail network was composed by supermarkets, proximity stores and municipal markets

Despite the great expectations surrounding this project, by the end of 2010 newspapers started to report some problems within the PRESILD retail network. According to the newspapers, the “Nosso Super” and “Poupa lá” stores were running out of stocks and had no money to restock. Additionally, while one of the main objectives of PRESILD was to create jobs, newspapers also reported that several stores started to lay off workers. According to the same sources, the problems arose as the majority of the stores in rural regions were not lucrative enough. To surpass this problem the State would have to put more money in the PRESILD initiative.

By 2010 the PRESILD supermarkets and proximity stores had no money to restock

By October 2011, the “Nosso Super” and “Poupa Lá” stores began to shut down without official explanations. Later, in November, the Minister of Commerce, Mrs. Idalina Valente, told in the National Assembly that “Nosso Super” was not sustainable with the existing concession contract. Under the existing conditions it was not always possible to assure that the goods were being sold at a profit or at a loss. Mrs. Valente also stated that the initial expectation was of reopening the “Nosso Super” stores in December, but terminating the old contract and signing the new one was taking longer than expected.

In October 2011 the PRESILD supermarkets and proximity stores began to shut down

Only in May 2012 the “Nosso Super” and “Poupa Lá” stores started to reopen. The “Poupa Lá” stores continue to be managed by the “Entrepósito Aduaneiro de Angola”, while “Nosso Super” stores are now under “Nova Rede de Supermercados de Angola” (NRSA) management, which is an investment of the Brazilian company Odebrecht.

In May 2012 the stores started to reopen

The National Development Plan 2013-2017 incorporates a total investment of AOA 76.2 billion (US\$ 793 million) for PRESILD related infrastructures. The following projects are presented:

The National Development Plan 2013-2017 estimates a total investment of US\$ 793 million to PRESILD

- (i) The Luanda logistics and distribution center;
- (ii) The logistics warehouse of Viana;
- (iii) The Caála logistics and distribution center;
- (iv) Construction of municipal markets;
- (v) The Malanje logistics and distribution center;
- (vi) Construction of nine commercial areas.

ANGOALISSAR

AngoAlissar, established in 1992, is one of the most important importers and distributors in Angola. The company is part of the Webcor Group, which has a very strong presence in the region and is present in the trading, distribution, industry and processing businesses. In Angola, it is present in the distribution, through AngoAlissar, and in the processing sectors, through Imex, which produces heavy plastics, foam, mattresses and paint. In 2004 it also started to operate a business specialized in the import and resale of construction and building materials in Angola, Ribalta Imobiliária.

AngoAlissar is one of the most important importers and distributor in Angola

Originally, AngoAlissar operated mainly in the wholesale channel supplying both the formal and the informal market. Being one of the oldest importers operating in Angola, it built a strong competitive position and became one of the most important suppliers in the country. Moreover, AngoAlissar is the sole representative and distributor of several important brands like Unilever, Danone, Philip Morris, Johnson & Johnson, Evian, Kellogg’s, among others.

AngoAlissar supplies both the formal and the informal market

The company has also developed a relatively large portfolio of own brands. Their own-label products include: pastas; milk powder; sunflower oil, soybean oil, peeled tomatoes, maize flour, wheat flour, rice, beans and several others.

It has a large portfolio of own brands

AngoAlissar has three different store concepts. First, the Cash&Carry stores are the oldest concept and the core of AngoAlissar’s network with around 88 stores. Although their main target is the wholesale segment, the company has been adapting those stores to allow everyone to shop in them and to make the shopping experience more pleasant. Second, Super Kamba, a network of supermarkets with sales areas between 500 and 1,500 square meters. Third, the stores with sales areas between 3,000 and 5,000 square meters, which will operate under the Spar brand. The first and only Spar store opened in Cabinda at the end of June, implying an investment of AOA 500 million (US\$ 5.1 million). According to the company the objective is to have around 20 Spar stores until the end of 2015. Besides the difference in sales areas, Spar tries to target customers with a higher disposable income than Super Kamba’s traditional customers.

AngoAlissar has three different store concepts: (i) the Cash&Carry; (ii) Super Kamba super markets; and (iii) Spar supermarkets

AngoAlissar is also expanding to the production stage in Angola. According to Mr. Wissam Nesr, AngoAlissar’s CEO, the company has already established four joint-ventures with multinational brands to start producing in Angola. One of these joint-ventures is with Danone and production facilities are already under construction with production expected to start in the short term.

AngoAlissar has a joint-venture with Danone to start producing locally

KERO

Kero is part of the Zahara Comércio, S.A., totally owned by Angolan investors, one of which is Cochlan. Kero opened its first store in December 2010 and is currently one of the most important food and fast-moving consumer goods (FMCG) players in Angola.

Kero is one of the most import food and FMCG players in Angola

The first Kero hypermarket received a lot of media attention due to its considerable size, the biggest in Angola with 7,500 square meters and around 20,000 stock keeping units (SKU), and very modern structure and look. This store implied an investment of US\$ 35 million, partially supported by Banco Atlântico, and created 500 direct jobs.

First Kero hypermarket was the biggest in Angola with 7,500 square meters

In the newer stores, Kero started new business formats dedicated to textile, consumer electronics and entertainment products. Other differentiation factors of Kero are the free parking spaces in every store, the takeaway meal service and the loyalty card.

Kero started business formats dedicated to textile, consumer electronics and entertainment

Currently, Kero has seven hypermarkets and three supermarkets. During 2014, Kero should open two new hypermarkets with an investment of US\$ 50 million. Kero's expansion has been very quick and should not slow down in the coming years. Its aggressiveness has been rewarded with a strong brand awareness and the consumers' perception that it is one of the most relevant and modern players in Angola.

Kero's is one of the strongest brands in Angola

TEIXEIRA DUARTE

Teixeira Duarte is a Portuguese economic group that operates in several sectors and has been operating in Angola since 1976. It is present in the food retail sector since 1996, when it opened the first "Maxi" store. Maxi is a hard discount concept and was the first formal retail chain to operate in Angola. Currently, Maxi has around 1,500 employees and 13 stores in Luanda, Porto Amboim, Sumbe and Lobito.

Maxi was the first formal retail chain to operate in Angola

In 2011 the company opened a proximity store under the brand "bompreço" in Viana, outskirts of Luanda. In 2014 a second "bompreço" store opened its doors in Luanda.

It has two proximity stores

According to the company's 2013 Annual Report and Accounts, Teixeira Duarte expected to open seven stores during 2014. Of those seven, two already opened doors. Maxi stores typically have a sales area of around 3,500 square meters, while "bompreço" stores have 1,000 square meters of sales area.

Maxi stores typically have a selling area of 3,500 square meters

An interesting initiative of Teixeira Duarte was the creation of "Fazenda Maxi" in 2013. Through this initiative the company wants to boost the production of the agricultural sector in Angola and to assure a regular supply of fresh products from local producers. Maxi offers technical support and advisory to farmers and assures the product's transport from the farms to the stores.

"Fazenda Maxi" is an initiative to support and boost local production

SHOPRITE

Shoprite is a South Africa based retailer founded in 1979 and present in 15 countries across Africa and the Indian Ocean Islands. Shoprite is the biggest African retailer, with more than 1,900 stores and a turnover of ZAR 51.1 trillion (US\$ 4.9 billion) for the 6 months ended in December 2013. It's the 94th biggest retailer in the world according to the "Global Powers of Retailing 2014" report. The same publication ranks Shoprite #34 in terms of revenue growth between 2007 and 2012.

Shoprite is the biggest African retailer

Shoprite entered in the Angolan market in 2003 and currently has 36 stores across the country. Until June 2015, it plans to open seven additional stores. Shoprite stores in Angola comprehend the following formats:

It is present in Angola through five different formats

- Shoprite (7 stores): Supermarkets focused on groceries and durable items at a low price;
- Usave (14 stores): Discount stores, smaller than Shoprite, focused on lower income consumers;
- OK Furniture (5 stores): Offers a wide range of furniture, electrical appliances and home entertainment products;
- Hungry Lion (7 stores): Quick service restaurants;
- Medirite (3 stores): Pharmacies.

Angola is one of the countries being targeted by Shoprite's expansion plans due to its high growth potential. In Shoprite's "Interim results for the 6 months ended December 2013" presentation, the growth of Angola has been illustrated with two examples: (i) "Angola's 19 stores sold more bottles of JC le Roux than the entire RSA business"; and (ii) "Five Shoprite stores in Angola sold more Red Bull than all 382 Shoprite stores in RSA".

Angola is one of the countries where Shoprite wants to expand

In August 2012, Shoprite announced that it was building a logistic center in Luanda. In December 2012, Shoprite's CEO, Mr. Whitey Basson, stated that Angola was its biggest sales contributor outside South Africa.

Angola was the biggest sales contributor outside South Africa

SCORE DISTRIBUIÇÃO

"Score Distribuição", part of the Angolan group Score Investments, started operations in June 2013. Currently, Score is present in the retail segment through two different concepts: (i) a cash & carry (C&C) hypermarket, Deskontão; and (ii) a chain of supermarkets, Mel.

Operates a C&C hypermarket and one supermarket

In 2010, Score announced its expansion plans for the distribution business and that they had established a partnership with the Portuguese group Jerónimo Martins. Its expansion plan involved a total investment of US\$ 350 million and the creation of around 2,000 jobs. The partnership contemplated the training of employees, technical advisory and the sharing of best practices. Moreover, Jerónimo Martins is also the main supplier of Score's stores.

Score has partnership with the Portuguese group Jerónimo Martins

The initial plan was to open the first store during the second semester of 2011 and in 2010 the construction of the store and logistic center was adjudicated to Mota-Engil. However, only in June 2013 the first store opened its doors. The first store, Deskontão C&C in Luanda, together with the logistics center and company headquarters occupies an area of 11,287 square meters and implied an investment of US\$ 33 million.

The first store, together with the logistics center and the company headquarters, occupies an area of 11,287 square meters

When its first store opened, the company announced its intentions to open 18 Deskontão stores and 60 Mel supermarkets, of which 37 in Luanda. This was to be accomplished in five years with a total investment of US\$ 400 million and the first Mel store would open in October 2013. However, only in April 2014 the store opened its doors. According to Mr. Paulo Carvalho, a director of Score Distribuição, the construction of the store took longer than expected, thus explaining the delay. Despite this, Mr. Paulo Carvalho reaffirmed the company's expansion plans, but said that the timings may have to be revisited.

The company wants to open 18 Deskontão stores and 59 Mel supermarkets

Each Mel supermarket is expected to have a sales area of around 1,000 square meters with around 1,300 SKU and employ c. 45 people. Each store implies an investment between US\$ 3 and US\$ 5 million. During 2014 the company plans to open between three and five Mel stores.

Mel has a selling area of 1,000 square meters

MEGA CASH & CARRY

Mega Cash & Carry belongs to Refriango, a company with Angolan and Portuguese capital. Refriango is one of the most important players in the production and distribution of soft drinks, juices, water and alcoholic beverages in Angola, with a vast experience in the consumer goods industry and in the retail sector.

Mega Cash & Carry belongs to Refriango

The first Mega Cash & Carry was inaugurated in October 2010 in Luanda. With 4,600 square meters of sales area and c. 3,000 SKU, it implied an investment of US\$ 25 million in infrastructures and US\$ 10 million in products acquisition. However, despite the company's intentions to open 10 new stores in three years, only in January 2014 the company opened its second store, in Lobito. The company has not made any update about its expansion plan or given any explanation about this delay.

The first Mega C&C has a selling area of 4,600 square meters. The company planned to open 10 more stores in three years

Within the Mega Cash & Carry project, Refriango created another retail concept, "Bem Me Quer", for smaller stores. This concept works like a franchise model. Refriango provides technical and commercial support and all the stores have the same visual and organization patterns. In exchange all grocers have to commit with a three year exclusivity supply contract with Mega. Currently, there are 24 "Bem Me Quer" stores. This strategy allows to strengthen Mega's brand awareness, as both brands are easily related, and allows Mega, and its own brands, to gain scale. Mega wants to achieve around 150 "Bem Me Quer" stores with an investment of around US\$ 5 million.

"Bem Me Quer" are smaller stores that work like a franchisee and Refriango provides technical and commercial support

SONAE

Sonae announced its intention to enter the Angolan market in April 2011 through a partnership with the Angolan company Condis, owned by Mrs. Isabel dos Santos and Mr. Sindika Dokolo, to together build and operate a retail business. Sonae disclosed that the agreement would involve the set-up of a joint venture (JV) held 51% by Condis and the remaining by Sonae, which will be responsible for the operational management. The investment will be made using a “capital light” approach, meaning that it will not include the real estate investment component. However, until today no single store opened its doors.

Sonae will enter the Angolan market through a partnership with Condis and it will be responsible for the operational management

According to a company presentation from May 2014, all regulatory approvals have been obtained but negotiations are still being finalized and the first store is expected to open in 2015. Company plans are to open between four and five hypermarkets, in the Luanda region, and one distribution center in the initial phase. The same presentation states that “organized retail” represents no more than 10% of overall food market and that the company expects local sourcing to weight around 30% in the initial stage and grow over time.

Sonae plans to open four to five hypermarkets and one distribution center in the initial phase

We believe that Sonae lost some precious time to its competitors, which means there is not much room for error. The company must be very careful in choosing its locations and assure a quick expansion so it can recover the lost time and to take advantage of the economies of scale provided by its distribution center.

A quick expansion is crucial to take advantage of the economies of scale provided by its distribution center

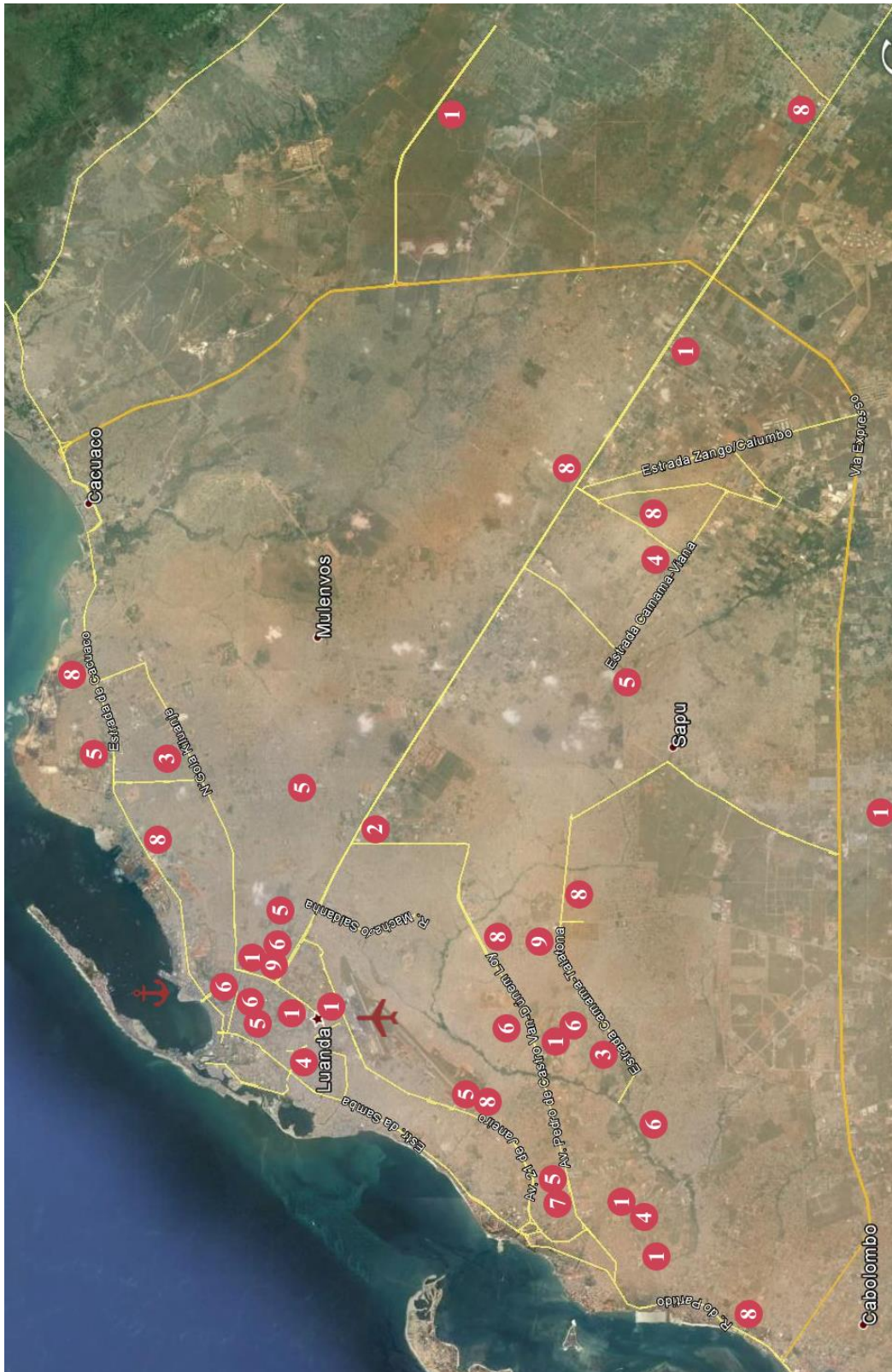
Despite Sonae’s delay we believe it has the potential to become one of the country’s main players in the retail sector. Sonae is market leader in Portugal with an extensive know-how and privileged contacts with several suppliers and major brands. By leveraging its internationalization on the Portuguese operations, Sonae gains bargaining power and it can sell in Angola the same products that it sells in Portugal under its own brand.

Portuguese operations give Sonae additional bargaining power

Moreover, Sonae has a very strong specialized retail offer that complements its food and FMCG business. Sonae’s specialized retail offer in Portugal includes clothing (Mo), clothing for children (Zippy), electronics and entertainment products (Worten) and sports apparel (Sportzone). Like stated above, we believe that the demand for specialized retail in Angola will grow significantly in the coming years and Sonae may be one of the best positioned to take advantage of this market.

Sonae has a very strong specialized retail offer

LOCATION OF MAIN RETAILERS IN LUANDA (NON EXHAUSTIVE)



- 1 Kero
- 2 Mega
- 3 Deskontão and Mel
- 4 Shoprite
- 5 Maxi
- 6 Casa dos Frescos
- 7 Sonae (planned)
- 8 Nosso Super
- 9 Alimenta Angola

Source: Company information, Google and Eaglestone Securities.

CHALLENGES

PRODUCTION AND IMPORTS

One of the major challenges that Angola, and its retail sector, faces is the lack of local production. Hence, its dependence of imported goods is high. In this context, the increase in local production is considered by the Angolan authorities as one of the country's top priorities.

The increase of local production is a country top priority

According to some estimates c. 60% of the food consumed in Angola is imported. The main food imports are cereals, meat, processed food and vegetables. In fact, although Angola has considerable agriculture potential, the civil war has destroyed most of the country's agricultural infrastructures and the country is now trying to make up for the lost time.

Around 60% of the food consumed in Angola is imported

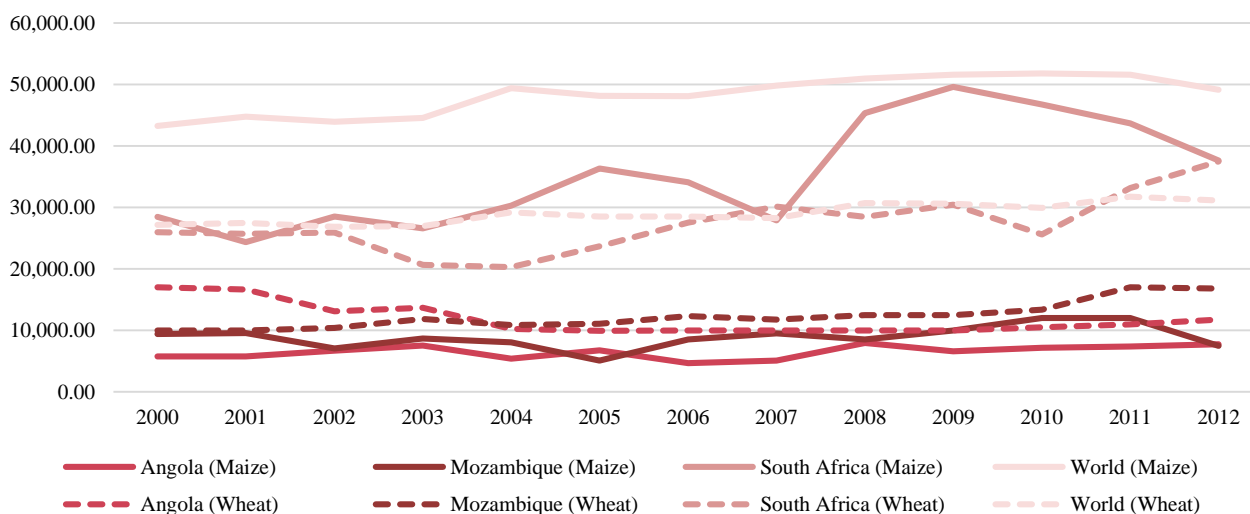
Angola has around 583,900 square kilometers of agricultural land, of which 7% is classified as arable land and less than 1% is occupied with permanent crops. It has around 148 billion cubic meters of renewable water resources available and less than half a percent is withdrawn annually, of which only around one third is used for agriculture. The agriculture sector employees around 69% of the Angolan labor force.

Angola has around 583,900 square kilometers of agricultural land and agriculture employs 69% of the country's labor force

Despite its potential, the agriculture sector is characterized by very low productivity. This is mostly explained by the fact that most of the land is not explored by professional agro-businesses. The majority of agriculture production is composed by subsistence farming, around 80% according to FAO. Production is rain-fed and without usage of greenhouses, therefore limiting the land usage to one harvest per year. It is possible to see in the graph below that Angola has a low crop yield in both Maize and Wheat, which weigh around 16.6% and 12.2%, respectively, of the average daily calorie intake. Therefore, both need to be imported, around 23% and 99%, respectively, of the average consumption.

The agriculture sector in Angola is characterized by very low productivity and 80% is subsistence farming

CROP YIELD (HG/HA)



Source: FAOSTAT.

The task of going from subsistence agriculture to a professional and market oriented production is not easy. First, due to the rural population displacement caused by the war and the lack of qualified human-capital in the sector. Second, the amount of investment needed to deploy greenhouses, irrigation and automation systems is not affordable for most of the farmers. Third, because the mindset is not ready for large scale investments. Since most of the production is for subsistence purposes they only sell the surplus. Hence, they do not see the advantage of such investments, taking into account the uncertain return.

Agriculture in Angola is not market oriented and the mindset is not to make large investments

There also several infrastructure constrains that are important to bear in mind. The poor transportation network makes it difficult for farmers to access regional and national markets where they can sell their products. On the top of this, most of the existing markets are not equipped with cold storage facilities where perishable goods can be kept. In parallel with these distribution problems, most of the farmers do not have access to seeds, fertilizers and lack adequate tools.

It is difficult to transport production to consumption centers due to infrastructure constraints

The access to adequate water supply is also an issue. Despite the considerable water resources that Angola has, it lacks the infrastructures to take water from hydrographical basins to the agricultural fields. Without water supply the usage of irrigation systems is not possible, thus increasing the damages caused by droughts and other weather related risks.

It is necessary to improve water supply

The agriculture sector is one of the top priorities of the Angolan authorities, aiming to increase country's local production and to decrease its dependence on imports. Its importance is strategic given its weight in the country's GDP, the number of people that it employs and the need to protect the country from food price fluctuations. In the country's "National Development Plan 2013-2017", authorities state the intention of making better use of the country's natural resources with the purpose of increasing food security, supply the country's population and take advantage of export opportunities.

The agriculture sector is one of the authorities top priorities to increase food security, supply the country's population and take advantage of export opportunities

AGRICULTURAL INDICATORS	2012	2013F	2014F	2015F	2016F	2017F
Production (tons)						
Cereals	1,408,826	2,292,334	2,602,320	2,872,681	3,176,762	3,520,990
Legumes	564,966	630,935	836,103	1,033,588	1,192,041	1,368,298
Roots and tubers	16,219,865	24,072,833	26,865,240	30,621,555	34,161,578	37,815,136
Chicken	5,377	20,390	20,390	25,668	36,602	41,322
Beef	10,005	11,906	14,169	16,861	251,134	266,809
Goat meat	40	207,860	205,261	210,803	225,155	222,340
Eggs	7,526	7,734	7,948	8,169	8,395	8,627
Milk demand ('000 liters/year)	52,545	236,240	429,817	633,675	848,228	1,073,905
Milk production ('000 liters/year)	0	11,812	34,385	69,704	118,752	118,752
Dairy cattle	0	719	3,271	7,234	12,911	24,518
Sugar demand ('000 tons/year)	389,221	399,730	410,523	421,607	432,990	444,681
Sugar production ('000 tons/year)	na	na	28,737	67,457	86,598	124,511

Source: National Development Plan 2013-2017.

To increase the country's agricultural output several projects and initiatives have been launched. Most of the initiatives have the objective of boosting the small and medium farmer productivity by providing technical expertise, know-how and by shifting to a more market oriented production. There are projects related with infrastructure recovery and the deployment of silos and cold storage in every province. Adequate storage conditions and transportation network are fundamental to assure that the production arrives at the consumption centers in proper conditions.

Several projects and initiatives have been launched to boost local production and to recover and deploy infrastructures

The National Development Plan 2013-2017 identifies investments in silos, cold storage and agro-industrial clusters, amounting to US\$ 2.9 billion. This amount does not include other projects that can also have a positive impact on the agriculture sector, like investments in transportation and logistics infrastructures. Moreover, to boost the agriculture sector in a country with so much potential is considered by several identities as one of the most effective ways to fight poverty.

Authorities plan to invest US\$ 2.9 billion in silos, cold storage and agro-industrial clusters

As local production is not sufficient to satisfy demand, retailers have to rely on importers to complement their local supply. The Angolan market has two type of importers: (i) the importers-distributors, which play a role as importers and wholesalers; and (ii) the retailers, which want to control the whole supply chain and secure stocks, thus import directly.

There two type of importers: (i) importers-distributors; and (ii) retailers that import directly

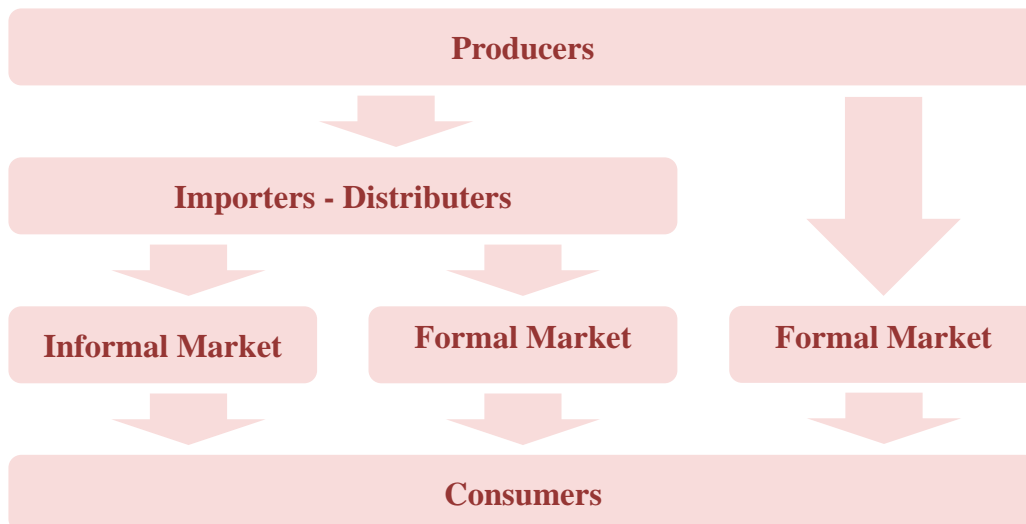
The importer-distributor activity was traditionally played by Lebanese companies, but in recent years new players have entered the market. Nowadays the most relevant players are from Lebanon, India, Europe, Angola and Eritrea. The growing competition has shifted dramatically the way importers-distributors make business. During the war the market was supply driven and having a warehouse to sell goods by carton was enough. Nowadays, competition created pressure on prices, mainly on fresh food, and those importers had to develop their own network of resellers and distribution to take fresh food to the markets. Typically these importers-distributors supply both the formal and the informal market.

Importers-Distributors typically supply both the formal and the informal market

Some importers-distributors are also trying to take advantage of their role in the supply chain by expanding their activity to the retail sector. One example is the AngoMart Cash&Carry of the Indian importer-distributor Sanzi Group. This strategy seems to be a reaction to some retailers' option to import their own products and to mitigate the impacts of the growing market formalization. Another example is AngoAlissar's Spar supermarkets. These players are also increasing their quality standards, professionalism and assuring a bigger supply of fresh products to meet the quality standards demanded by the formal market.

Importers-Distributors have been expanding to the retail business and increasing quality standards as a reaction to the formal market growth

GENERAL STRUCTURE OF THE SUPPLY CHAIN IN ANGOLA



Source: Eaglestone Securities.

There are several factors, besides the migration from the informal to the formal market, that explain the reaction of importers-distributors to integrate other stages of the distribution chain.

First, as local production increases it will become easier for the retailers to establish direct relationships with producers. While directly managing a network of imports requires a certain scale and structure, local production will make the task easier and accessible not only to the big players. This allows retailers to eliminate intermediaries, thus reducing costs and have a higher control over their products.

Local production growth will allow retailers to avoid and eliminate intermediaries

Second, a migration inside the formal market from the smaller and traditional retailers to modern retailers. Typically, modern retailers are integrated, directly or through a franchisee, in a large retail / distribution network that has a direct relationship with its suppliers.

Modern retailers typically have direct relationships with producers and suppliers

Third, as the Angolan market gets more mature and stable, it will enter in the major brands' radar. These brands will want to be directly present in Angola and not through a representative or an importer.

Major brands will want to be in Angola as the market gets more mature

We believe that as the market gets more mature, importers-distributors will try to integrate the retail or the production stage in their businesses. The fact that the agricultural sector is still relatively undeveloped may also be an opportunity. These players have the financial fire-power to boost productivity, the knowledge to adopt a market-oriented production and the means to take the production to consumers.

Importers-Distributors will try to adapt by expanding to the formal retail or integrate the production stage

PAPAGRO

The “Programa de Aquisição de Produtos Agro-pecuários” (PAPAGRO, Program of Acquisition of Agricultural Products) was created to provide a way for small farmers to take their products to consumption centers. PAPAGRO is a joint initiative of the Ministry of Commerce and the Ministry of Agriculture and Rural Development.

PAPAGRO is an government initiative to help small farmers

The idea behind the PAPAGRO is to establish regional markets, “Agromerca”, where the farmers can go to sell their production at a fixed price. In the Agromerca, the products are purchased after being inspected and weighed. The products are then sent to logistic centers to be sorted, graded and washed, before being distributed to markets and retailers. Besides supporting farmers, this process eliminates unnecessary intermediaries that drive prices up, benefiting final consumers as well.

In the Agromerca producers sell their production, at a fixed price, and then it is sent to markers and retailers

PAPAGRO is aimed at small and medium farmers, which weigh around 80% of total farming activity in Angola. Without PAPAGRO’s support, these farmers do not have the means, the know-how and the necessary scale to take their products across the country to consumption centers and sell them. In the Agromerca, besides selling their production, farmers can also acquire seeds.

Without PAPAGRO the small farmers don’t have the means to take their products to consumption centers

PAPAGRO can play an important socioeconomic role as agriculture represents an important source of revenue for the rural regions’ population. We believe that it can be one of the most powerful tools that Angolan authorities have to fight poverty in those regions. It constitutes an incentive for small and medium farmers to head towards a commercial and more productive farming activity. PAPAGRO has been trying to raise farmers’ awareness regarding product quality, the right time to harvest and the appearance of the products.

PAPAGRO can be a powerful tool to fight poverty and increase agriculture productivity

The PAPAGRO program is currently operating in 12, out of 18, provinces and should expand to the whole country in the short term. We believe PAPAGRO can have a very positive impact on the rural population’s living standards and on the sector’s development. Additionally, PAPAGRO should also start to advise farmers about what to produce, given their farming characteristics and taking into account the demand for each product. However, despite all the efforts, the long term success of PAPAGRO will also depend on the deployment of basic infrastructures that can drive agricultural productivity up and supply chain costs down.

The long term success of PAPAGRO will also depend of the deployment of basic infrastructures

In the end of July the press started to report delays in PAPAGRO’s payments. Several farmers have never been paid since the beginning of the program and around AOA 1.0 billion (US\$ 10.3 million) were needed to sort the situation. According to Mr. Porfirio Macassange, director of the Studies, Planning and Statistics office at the Ministry of Commerce, the sustainability of PAPAGRO was not at risk, but more resources were needed. Meanwhile, Mrs. Rosa Pacavira, Minister of Commerce, said during an event in mid-July that the Ministry had to stop buying farmers’ production because the bank that was working with PAPAGRO was “updating its systems”. However, she added that as soon as those technical issues were solved, payments and product acquisition would be resumed.

According to the press, PAPAGRO needs AOA 1.0 billion (US\$ 10.3 million) to regularize payment delays

LOGISTICS

In a country characterized by insufficient transport infrastructures and fast growing urbanization rates, logistics can be one of the main challenges that players in the distribution business have to face. Authorities have been trying to improve the country’s logistics structures, but it is relatively hard to keep up with the country’s fast growth.

Angola is characterized by insufficient transport infrastructures

Angola ranks 112th, out of 160 countries, in the World Bank’s 2014 Logistic Performance Index (LPI) with a score of 2.54, in a scale of 0 to 5. Although it is not a positive result, it should be noted that Angola ranked 142nd and 138th in the 2010 and 2012 LPI, respectively, with a score of 2.25 and 2.28.

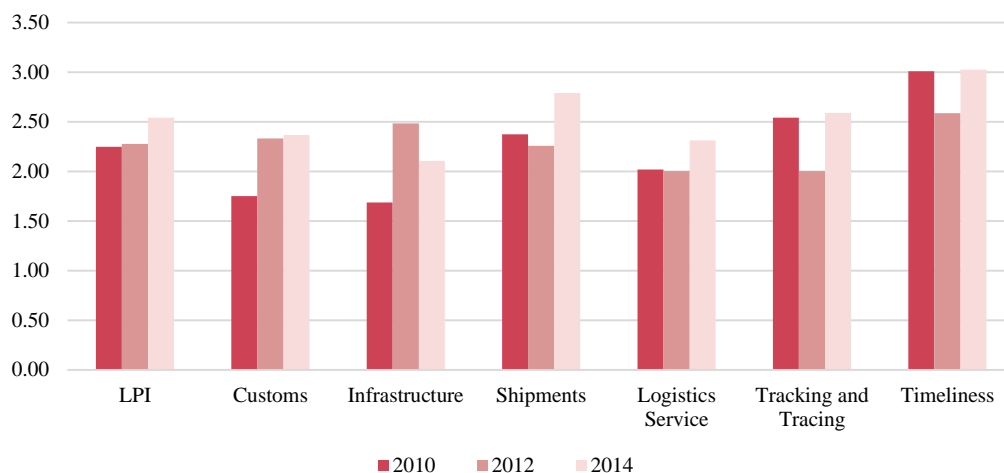
Angola ranks 112th in the World Bank’s Logistic Performance Index (LPI)

The LPI is a benchmarking tool created to help policymakers and stakeholders to identify the strengths and weaknesses that each country faces on trade logistics. The LPI is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics “friendliness” of the countries in which they operate and those with which they trade.

LPI is a benchmarking tool to help policy makers to identify the strengths and weaknesses on trade logistics

The structure of the LPI is composed of six sub-indexes: (i) customs; (ii) infrastructure; (iii) ease of arranging shipments; (iv) quality of logistics service; (v) tracking and tracing; and (vi) timeliness.

INTERNATIONAL LPI FOR ANGOLA



Source: World Bank.

Angola’s inefficient logistic infrastructures means lost business, lost money and more expensive goods and services for the population. The improvement of the supply chain and elimination of trade barriers can have a considerable impact in the country’s GDP and trade. According to the World Bank, if border administration and transport and communication infrastructures were improved worldwide, this could lead to an increase of almost 5% in the World GDP and 15% in World trade. This impact is much bigger than the one that a tariff elimination would bring, 1% and 10% to World GDP and trade, respectively.

Inefficient logistic infrastructures means lost business, lost money and more expensive goods and services for the population

The reduction of supply chain costs improves the efficiency of the movement of goods, thus recovering resources otherwise wasted. Although there are no official figures, estimates are that logistics’ weighs over 10% on Angola’s GDP, while in the USA and in the European Union it weighs c. 8% and 7%, respectively.

Estimates are that logistics’ weighs over 10% in Angola’s GDP

There are several reasons for Angola’s troublesome logistics, of which we highlight the following: (i) insufficient infrastructures; (ii) bureaucracy; and (iii) an underdeveloped logistics industry.

First, the long civil war in Angola has led to years without investments and under maintenance in the transportation network. As a result, despite the authorities’ recent efforts and investments, the existing transport network is nowadays clearly insufficient, given the country’s size, and being worse as you get further away from urban centers.

Angola’s transport network is insufficient for the country’s size

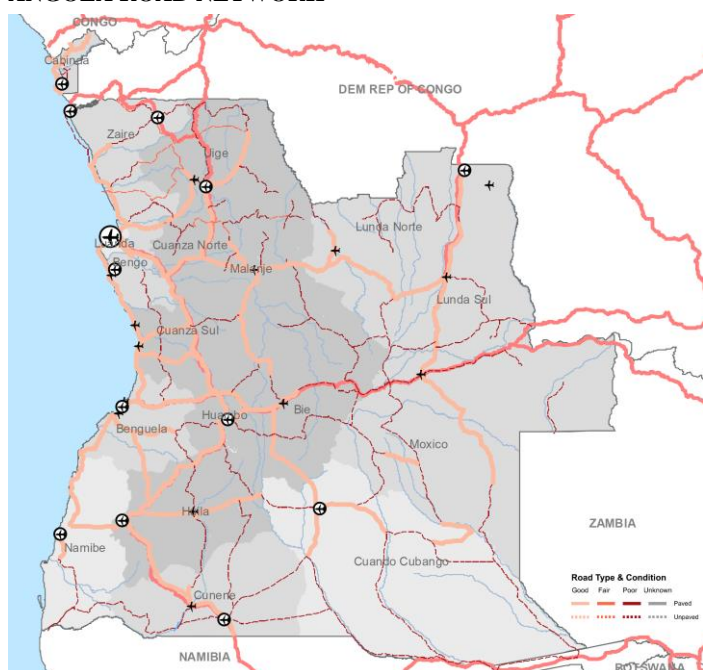
According to the World Bank, Angola’s road network covers 62,560km. The classified network (primary, secondary, and tertiary) accounts for 58%, or 36,399km. The remaining is the urban network of 11,057 km and the unclassified network of 15,104 km. According to these figures, Angola has a road density of c. 5km per 100 square km of land area, which compares with North America and South Africa road density of 67km and 31km per 100 square km of land area, respectively. Besides the difficulty to access certain regions of Angola, some roads are in very poor conditions and the cargo is damaged during the transportation stage. Additionally, the traffic in Luanda is another important constraint, given that the Port of Luanda is the main entry of imports, between 70% and 80%, and it is located near the city center.

Angola has a road density of c. 5km per 100 square km of land area and some roads are in very poor conditions

The rail network is also relatively small for the country’s size. Angola has three railway systems run by public companies that comprise a total network of 2,722km. These systems were built eastwards from the coast, linking the country’s key Atlantic ports (Luanda, Lobito and Namibe) to the interior. The railway density in Angola is of 0.22km per 100 square km of land area, which compares with North America and South Africa railway density of 1.7km and 2.9km per 100 square km of land area. The railway is considered extremely important to reach the interior of the country and to easily distribute goods across Angola, as well as to improve Angola’s connections to the SADC region. With this purpose, Angolan authorities plan to extend the northern and southern lines further east as well and build three new north-south lines that interconnect those three east-west lines. Additionally, a new railway will be built a new railway linking Luanda to Miconje, in Cabinda, where it connects with Brazzaville.

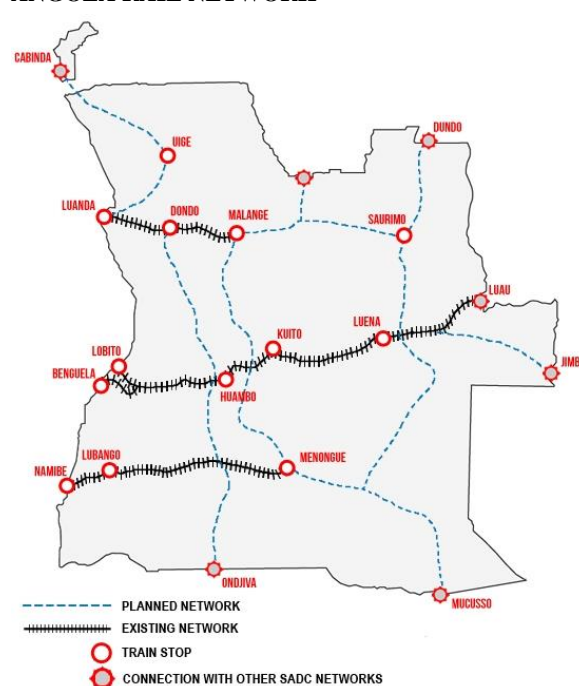
The railway density in Angola is of c. 0.22km per 100 square km of land area

ANGOLA ROAD NETWORK



Source: AICD Interactive Infrastructure Atlas for Angola.

ANGOLA RAIL NETWORK



Source: Ministry of transportation.

Logistic operators also face several constraints related with storage. Acquiring or renting a warehouse near the port of Luanda is extremely expensive, due to the city’s high real estate prices. It is extremely difficult to find warehouses with big areas and adequate storage conditions. Moreover, the maintenance costs of these warehouses is usually very expensive as a consequence of weak basic infrastructures.

It is difficult and expensive to find warehouses with adequate storage conditions near the port of Luanda

Second, the complex customs rules and legislation create a lot of bureaucracy and make the importation process lengthy and costly. According to the World Bank, to import a container to Angola requires on average 9 different documents, takes 43 days and costs around US\$2,700.

To import a container takes on average 43 days and costs around US\$2,700

IMPORT INDICATORS			
	Documents to import	Time to import (days)	Cost to import (US \$)
Angola	9	43	2,700
Mozambique	9	25	1,600
South Africa	6	21	1,980
European Union	5	11	1,083
North America	4	8	1,498
Sub-Saharan Africa	9	38	2,793
World	7	25	1,823

Source: World Bank.

The long period that the goods have to wait to be allowed to enter the country may imply lost sales and is a considerable threat when the cargo contains perishable goods. It also makes stock management a very complex task.

The high time to import can put the cargo at risk and complicates the stock management

Third, most of the logistics players in Angola are still in a very early stage of development and do not have integrated and complete offers. Most of the players in the Angolan market are relatively small and are not capable of offering end-to-end solutions to their customers.

There are no reliable end-to-end logistic providers

Logistics players in Angola focus on providing customs clearing services and road transportation to customers' central warehouses. Most logistics companies do not offer reliable storage services and their distribution network does not have the necessary scale and capillarity to provide an end-to-end service, especially if we consider transportation to rural regions. On the other hand, most retailers do not have a deep know-how and are not able to reach all the economies of scale of a specialized logistic operator.

Most logistic companies' have a low network capillarity and do not offer reliable storage services

We believe that the Angolan market still isn't an interesting investment case for logistics operators. Local production is still incipient, which does not allow to retrieve significant economies scale and the poor transport and basic infrastructures imply high operating costs. Taking all this into account and the investments necessary to offer integrated and end-to-end services, the Angolan market is not attractive for logistic companies. However, as the Angolan economy and the retail market grow, the investment case for logistic operators will become more appealing and the sector's development should accelerate.

The Angolan market is not developed enough to allow logistic companies to explore economies of scale

ANGOLAN CUSTOMS TARIFF BOOK

One of the most recent hot topics in Angola has been the introduction of a new Customs Tariff Book (“Pauta Aduaneira”) in 2014. The Angolan Customs Tariff Book is based on the Harmonized Commodity Description and Coding Systems (HS), a six-digit code system to classify traded goods on a common basis.

Angola introduced a new Customs Tariff Book in 2014

One relevant characteristic of the Angolan Customs Tariff Book is that it does not only discriminates the rates of import duties. It also contains the consumption tax applied to each product as well as the special taxes levied on alcoholic beverages, tobacco, luxury cars, jewelry and other specific items.

The Angolan Customs Tariff Book also contains the consumption tax applied to each product and special taxes

The previous Customs Tariff Book dated from 2007 and was subject to several revisions. In the last revision, in 2011, all tariffs on basic foods were removed. Since then, basic consumption goods could be imported without paying any tariffs.

The previous Customs Tariff Book dated from 2007 and the last revision was in 2011

During 2013 Angolan authorities announced the intention to publish a new Tariff Book and in November 2013, by presidential decree, the new Tariff Book was approved. The new Tariff Book was supposed to come into effect in January 2014. However, due to several technical problems and minor revisions, it only came into effect by March 2014.

The new Customs Tariff Book came into effect in 1 March 2014

Authorities state that the new Tariff Book aims to meet the “challenges of Angola’s socioeconomic development” and promote local production. With the new Tariff Book authorities seem to give a step towards protectionism as a way to boost national production. Despite the main objective of the authorities the implementation of the new Tariff Book carries significant risks and challenges with it.

The new Customs Tariff Book main goal is to boost local production

The new Tariff Book has a total of 6,651 references, while the previous version had 6,011. The maximum import tariff went from 30% to 50% and several items’ import tariffs were revised. The tariffs applied to most of the processed food and consumptions goods increased. On the other hand, basic consumption goods, primary materials, live animals, agricultural inputs, equipment, devices, machinery, medicine, vehicles for transport of goods and collective transports, among others, saw the tariffs removed or decreased. One of the most quoted examples in the press is beer, which saw its import tariff going up from 30% to 50% as Angola is self-sufficient in beer production.

The Customs Tariff Book has 6,651 references and the maximum import tariff stands at 50%

IMPORT RATES	TARIFF BOOK 2008		TARIFF BOOK 2014		Δ
	RATE	#	% OF TOTAL	#	
0%	2,576	43%	2,942	44%	366
2%	914	15%	1,150	17%	236
5%	819	14%	0	0%	-819
10%	522	9%	1,089	16%	567
15%	568	9%	0	0%	-568
20%	343	6%	563	8%	220
25%	19	0%	0	0%	-19
30%	250	4%	483	7%	233
50%	0	0%	424	6%	424
TOTAL	6,011	100%	6,651	100%	640

Source: Serviço Nacional de Alfândegas.

Despite the good intentions behind the new Tariff Book and the expected positive impact, there has been some criticism about it. It is our belief that the implementation of the new Tariff Book may provide some support to the economy in the short-term, but it also carries some risks in the medium to long term. It is fundamental that Angolan authorities continue focused on increasing the country’s productivity and infrastructures so that Angolan production becomes more competitive.

The implementation of the Customs Tariff Book also carries some risks

One of the first consequences of the new Tariff Book should be an immediate spillover effect on the prices of local production that had to compete with imported goods that are now subject to higher import rates. All other things being equal, if a local product had to compete with an imported good that is now subject to higher import rates, the local product’s price can now increase as much as the import rate and it will remain competitive. Also, local production that

Local products’ prices may increase due to the Customs Tariff Book

depends of imported goods affected by rate hikes will have to choose between increasing its products' prices or to decrease margins. We believe that this spillover effect will be hard to contain, but can be just a short term effect that does not jeopardize the main objective of the Angolan authorities.

However, in our opinion, the biggest threat for the Angolan economy is that the new Tariff Book can distort competition and disincentive innovation, productivity and investments. By increasing trade barriers, imported goods have a disadvantage against local production. This can be an important boost for local industries in an early stage to give them time to develop and strengthen their businesses, hence to be competitive when trading barriers are removed. It will also be an incentive for international companies that want to be in Angola to start producing locally or make partnerships with local producers.

On the other hand, since local producers already have a competitive advantage against foreign producers they may believe that there are no material advantages in investing in innovation and productivity. This can eventually lead to a situation in which local production is only competitive due to the import tariffs. This will also mean that their production will not be competitive enough to export.

Other common concern regarding the Customs Tariff Book is that by trying to support the local production of some products, it may harm the local production of other products. The idea behind this is that some products that are now subject to a higher import rate are needed in the production process of other goods. If the local production of those inputs is not enough, local products depending of those inputs will become more expensive and less competitive. This means that the effort to boost and increase the competitiveness of local production may benefit some products and have the opposite effect on others.

All in all, we believe that the new Customs Tariff Book's objectives are in line with the country's priorities and it can be an important support to the country's production. It will provide some room for local producers to strengthen and develop their businesses, as well as provide incentives for international players to invest in local production.

However, the Customs Tariff Book alone will not solve everything and it has several risks attached. As stated in the section "Production and imports", local production faces several constraints related with the lack of basic infrastructures, which must be addressed if the country's objectives behind the new Customs Tariff Book are to be achieved. Additionally, we believe that having a medium to long-term plan about how the customs tariff book will evolve can be extremely useful. By doing it, Angolan authorities would provide the visibility and predictability necessary to attract foreign investment. As well as to allow local producers to better use the competitive advantage that authorities are providing them and prepare themselves for a more open market.

Increasing trade barriers will give time for local industries to develop and strength their businesses and is an incentive for international companies to produce locally

Trade barriers might disincentive investments in innovation and productivity

Some local production may be harmed by the new Customs Tariff Book if their inputs are now subject to higher import rates

Customs Tariff Book can be an important support to local production

Having a medium to long-term plan about Customs Tariff Book evolution would be useful. Its implementation must be monitored closely

JUST THE BEGINNING

The retail sector has been witnessing a fast development during the last few years with a fast expansion of formal market's sales areas. The number of retailers in Angola has increased, all of them have ambitious expansion plans for the coming years, and several other international players have stated their intentions to expand to Angola. The Portuguese Sonae plans to open two stores in the coming year and Massmart, the South African retailer owned by the American Wal-Mart, announced its intention to open other two. Moreover, several other players have already stated their interest in the market. This is, we believe, just the beginning.

Formal market's selling areas has been expanding rapidly in the last few years

The reasons behind the attractiveness of the Angolan market are easy to understand. A growing economy, favorable demographics, the migration from the informal to the formal market and an Angolan consumer that is becoming more sophisticated. The favorable demographics are particularly interesting and impressive when compared to developed countries' trends and put together with Angola's fast economic growth.

Angola is especially attractive due to its growing economy and favorable demographics

Despite the bright future, two major challenges lie ahead. First, the need to boost local production. Local production in Angola is insufficient to supply its population, which makes the country highly dependent of imports and raising concerns about food security. Second, to improve logistics. Running a logistic operation in Angola is a truly complex task. The excessive bureaucracy regarding product imports, the poor transport infrastructures and the lack of a fully developed logistic industry are to blame.

There are two major challenges ahead: (i) the need to boost local production; and (ii) to improve logistics

We believe that the development of the retail sector can be an important driver to tackle these two challenges. Especially, regarding local production. To import fresh products is an extremely expensive and complex task. If local producers plan their crops carefully and improve their quality standards, the retail sector will absorb all foreseeable production. Retail sector's growth may be the incentive needed for farmers to head towards a market oriented production and invest to improve productivity and quality. As the retail sector and local production grows, also the logistics industry will have more incentives to develop.

The retail sector can be an important catalyst to develop local production and the logistics industry

The necessity of better infrastructures must also be addressed. The lack of adequate water and electricity supply as well as the insufficient transport infrastructures harm the development of the agriculture and logistic sectors. The government has announced several initiatives and investments to cope with these issues, but now it's necessary to execute them and monitor closely their progress and impacts. PAPAGRO is an example of what it seems, in our opinion, a positive initiative, but the latest news flow is worrying. PAPAGRO's problems should be addressed as soon as possible, but it is also necessary to correct its flaws and improve it taking into account the inputs of all its stakeholders.

The lack of adequate water and electricity supply as well as the insufficient transport infrastructures harm the development of the agriculture and logistic sectors

The Customs Tariff Book implementation and effects are another subject that should be monitored very closely by the Angolan authorities. While we undoubtedly praise the goal of increasing local production, there are some risks attached with its implementation. The authorities should make clear what are their specific goals and how the Customs Tariff Book will evolve in the medium to long-term. If not, we risk seeing Angolan companies wasting an opportunity to grow and become more competitive, while at the same time Angolan consumers will be faced with price increases.

Authorities should make clear what are the goals behind the Customs Tariff Book and how it will evolve in the medium to long-term

We believe that some M&A action may happen in the medium term. In the distribution business scale is crucial and a slow expansion can doom the best strategy for failure. On the other hand, some of the players today in Angola may not be able to keep up with the fast pace and for some of them distribution is not their core business. Acquisitions would allow to accelerate expansion and, for some players not yet in the market, may be the best possibility to recover the lost time.

M&A action may happen in the medium term

Despite the fast growth of the last few years, we believe that this is just the beginning. The number of hyper and super markets is still low and the demand for modern retail stores is growing. Looking at Luanda's metropolitan area we notice that despite the sector's development, the number of modern retail stores is still very low. Moreover, there are regions with much lower store density. We believe that the number of stores will continue to grow quickly in the coming years and the focus should gradually start to turn to these areas that have lower store density. The existing players should expand as fast as they are able to, in an effort to gain customer loyalty and pick the best locations. For the players that still haven't entered the market, the clock is running against them.

The market should continue to grow fast in the coming years

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Disclosures

Eaglestone was founded in December 2011 with the aim to be a committed partner for the development of businesses located primarily in Sub-Saharan Africa and to support the development of renewable energy projects on a global basis.

The company has three business activities - financial advisory services, asset management and brokerage - and currently has offices in Amsterdam, Cape Town London, Lisbon, Luanda and Maputo

Eaglestone is committed to operating and behaving according to the highest standards of corporate governance. Its subsidiary in the United Kingdom is authorized and regulated by the Financial Services Authority. The first of its six Luxembourg based funds has received approval from la Commission de Surveillance du Secteur Financier.

Eaglestone operates with a clear vision and mission to act on behalf of and in the best interests of all its stakeholders, whether they are investors, employees or users of its services.

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