

Firms scale up investment in

Milk processors have pumped in huge investments into the industry, thanks to a fast growing market whose size is expected to keep expanding. We explore what is driving this investment and the prospects of this industry to the economy.

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It is now not entirely surprising when on a flight from Entebbe to Istanbul, Dubai and Johannesburg to encounter Jesa Farm Dairy products as part of the inflight service. Fresh Dairy too is a common product on many flights from Uganda. This development is an indicator of the growth in the dairy sector, especially the value addition on dairy products.

Investment in the milk processing sector is estimated to have reached about \$80m (about Shs288 billion) by the end of 2016. Additionally, estimates from the Dairy Development Authority (DDA) place the value of marketed milk at about \$700m (about Shs2.5 trillion) at the end of 2016, compared to \$500m (about Shs1.8 trillion) in 2015. The value of marketed milk is rising in part because of the value addition investment that several processing factories are making.

Uganda currently has Brookside Dairy (Fresh Dairy) Uganda Ltd (the market leader), Jesa Farm Dairy Limited, Pearl Dairy Farms Limited, Amos Dairies Limited, Paramount Dairies Limited, GBK Dairy Products Limited, Vital Tomosi Dairy Limited and Mega milk, among others. These players have a total installed capacity of 1.4 million litres per day.

The most recently completed investment in the sector is Vital Tomosi Dairy (VTD), which makes the Milkman brand. This was launched in November 2016 after investment of \$13m (about Shs46.8 billion) from Vital Capital Fund, an Israel-based private equity firm with \$350m (about Shs1.3 trillion) funds under management. The entry of Vital Fund



Some of the farmers that supply Fresh Dairy sieve milk to maintain the producer's quality standards in Rushere District. PHOTO BY ERIC DOMAN DUKENYA

ensured that VTD was able to produce yoghurt and UHT Milk. "The investment follows a hands-on operational approach Vital Capital has successfully implemented in similar projects throughout Af-

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ESTIMATED INVESTMENT IN UGANDA'S MILK PROCESSING SECTOR BY THE END OF 2016

rica, by creating commercial-scale agro-processing ventures, while strengthening rural communities and utilising a region's competitive advantages," explains Mr Eyal Jones, the managing director at VTD. Recently, Denbe Distributors, the makers of the Snowmans ice-cream, also expanded their production of yoghurt, making their presence felt in supermarkets.

Drivers
One of the drivers for processing is the increased milk production. It is estimated that the production of milk is about 2 billion litres annually from 1.7 billion litres three years ago.



WHY INVEST?

"Tomosi's Farm is already improving the income of small hold farmers while improving the food security condition, reducing costs for consumers and providing the much needed milk and returning profit to our investors. This is impact investing," Mr Jones explained on why they decided to invest in milk processing. In 2015, Brookside, East Africa's largest milk company, paid about \$42m (about Shs151.2 billion) to acquire the majority stake in Fresh Dairy. The Uganda government owns a 49 per cent stake in Fresh Dairy. Being the largest milk processor at 500,000 litres per day (38 percent market share), Brookside

has so far invested \$13m (about Shs46.8 billion) to expand its processing capacity. "As a result of an excellent partnership with our raw milk suppliers, our processing capacity has risen close to 600,000 litres of milk per day. In the past three years, we have undertaken a \$13 (about Shs46.8 billion) million equipment upgrade at our Kampala processing factory, including installation of new production lines," Mr John Gethi, the director milk procurement at Fresh Dairy told Daily Monitor.

The presences of other processors possess a threat to Fresh Dairy, since "a market share will be affected. The competition comes with products such as UHT milk and yoghurt that are consumed widely in urban areas such as Kampala. In June 2016, for instance, Pearl Dairy Farms, the makers of the Lato Milk brand, expanded production into UHT milk, scaling their capacity from 740,000 litres per day to about 500,000 litres per day. However, Fresh Dairy plays down the presence of other players affecting their operations. "Dairy remains a business opportunity like any other. We see this as opportunity for Fresh Dairy to expand its footprint in the region," Gethi explains.

MILK PROCESSING FIRMS INSTALLED CAPACITY

- Fresh Dairy - 500,000 litres per day
 - Pearl Dairy - 500,000 litres per day
 - Amos Dairies Uganda Ltd - 400,000 litres per day
 - JESA Farm Dairies - 100,000 litres per day
 - VTD Tomosi - 50,000 litres per day
 - Others - 160,000 litres per day
- Ownership
Fresh Dairy - 51 per cent Brookside, 49 per cent Uganda government
Pearl Dairy (Lato Milk brands) - Highland Group, Dubai (owners of Midcom, Rainbow International & Coura View Towers)
Amos Dairies - Mr Punit Pruthi & Mr Sumir Chawla, India
Jesa Farm Dairy - The Estate of James Muhwana
VTD Tomosi - Vital Capital & Tep Group (OdeK Rwabwogo)

Of the 2 billion litres, about 1.4 billion litres is sold on the market but only 30 per cent of that is processed, a rise from 20 per cent in 2014. That translates to about 420m litres of processed milk annually.

The presence of supermarket chains has eased distribution of dairy products across the country. Retail shops distribute UHT milk.

According to a 2015 report by Euro-monitor, Uganda has been identified as one of the 20 markets of the future that will offer the most opportunities for consumer goods companies.

"Uganda's modern retail outlets are expected to increase their share of dairy processed products at 11 per cent of all the fastest economic growth rates in Africa and strong purchasing power in the capital Kampala is anticipated to augment sales of consumer goods across all categories," reads an October 2016 International Growth Centre report on East Africa Dairy Value Chains.

Under-processing
With an installed capacity to process of about 51m litres annually, the processors have a redundant capacity of 9m litres annually.

"At the industry level, actual capacity utilisation remains low, oscillating between 40 and 60 per cent at the industry level between the lean and peak milk production seasons," the report reads.

This low utilisation of capacity is in most cases driven by the presence of raw milk, where farmers prefer to make their own direct sales, without adding value. This problem, in part, arises from what farmers considered low prices and what processors also consider as poor quality milk. For instance, Fresh Dairy has the highest plant utilisation of about 70 per cent because of its presence around the country. Its distribution and retail network is the largest of any milk processor in the country, giving it that advantage.

Other players have set up factories closer to the source of milk. VTD, Pearl Dairy and Amos Dairies are all located in Mbarara, near the source



Officials inspect milk in cans. Ugandan raw milk is among the cheapest in the world. PHOTO BY RACHEL MABALA

of the milk. According to DDA, South Western Uganda accounts for about 30 per cent of all the market produced in Uganda, which explains why most processors set up shop there. The central region is largely dominated by Fresh Dairy and Jesa Farm Dairy. For the factories to set up shop in western Uganda, they take-out the middleman and offer a "competitive price" to the farmer. For Jesa, it is a whole different arrangement, much like the beer companies operate when purchasing sorghum and barely from farmers.

"Under a long-term MoU, JESA pays its milk suppliers a constant price throughout the year and provides training and animal disease control to cooperative farmers," the ICG report reads.

The fixed price allows Jesa to plan ahead in terms of expenses to farmers. For the farmer, they are guaranteed income through the year. The price fixed is, however, reviewed annually to incorporate the prevailing market conditions.

Jesa Farm Dairy did not respond to our queries when contacted over this story.

Export market
Mr Steven Alkiza, a dairy advisor with SNV, says the estimated export value is projected to increase to \$80 million (about Shs288 billion) from the current \$60 million (about Shs216 billion). He says this is informed by the projected 8 per cent growth target that has been forecast for the sector.

One of the factors driving the increase in milk production volumes according to

the experts is youth involvement in commercial dairy production.

"Ugandan raw milk is competitively priced - it is among the cheapest in the world - and also has high quality with medium to high fat content and very low levels of pollutants. The country produces more milk than it can consume itself, so the growth of the sector needs to be export-led," a Norwegian-African Business Association notes.

The market for powdered milk products is noted to be beyond the Ugandan market. Lato Milk and Amos Dairies are exporting some of their products. In 2016, the Voxtra Fund from Norway invested in Amos Dairies to develop powdered products for export in Asian markets.

The outlook
Some farmers are establishing large collection centres where they can sell milk collectively to processors, fetching them a better price. This is already being done by Uganda Crane Creameries Cooperative Union (UCCU), which markets 300,000 litres of fresh milk everyday from its coolers in Mbarara.

UCCU which has about 18,506 members is setting up its own processing facility that will have its own branded products. It was started after farmer frustrations on low prices and the influx of milkmen.

Uganda is targeting to increase milk processing to more than 50 per cent of all the marketed milk. This will only work once the informal channels of selling milk become formalised.

PROCESSING

Milk processing

Milk processing preserves and converts milk into high-value exportable dairy products. Dairy processing involves heat treatment of raw milk to produce pasteurised drinking-milk products, primarily for domestic markets, and further processing of milk to manufacture a range of exportable products (that is high-value, low-weight products with long shelf-lives).

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MONEY (IN SHILLINGS) THAT BROOKSIDE PAID IN 2015 TO ACQUIRE MAJORITY STAKE IN FRESH DAIRY



Farmers' challenges

In Rushere, many farmers thanked processors for making monthly payments for milk delivered. Mr Ronald Ssewendu, a smallholder farmer from Rushere, said, "Dairy farming has become seasonal with milk volumes increasing during the rain and when the dry season comes, production goes down."



40-60%

PERCENTAGE CAPACITY UTILISATION OF PROCESSORS IN UGANDA

Features of Uganda's

According to kenresearch.com, the dairy market is largely unorganised with large numbers of small farmers who contribute 80 per cent to the overall production in the nation followed by 20 per cent from the large farms.

Out of the total raw milk production of 2.8 billion across the nation, only 40 per cent of the raw milk is processed into products such as cheese, butter, milk powder, processed milk, flavoured milk while a percentage is sold out to local consumers in raw form without addition.

Additionally, a percentage of raw milk gets off proper storage and refrigeration facilities.



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