PRESS RELEASE: PRICING RESCUES FMCGs

Vetiva Research ("Vetiva") recently released its H2'22 outlook report titled "A strange Labyrinth". In the Consumer Goods sector report, Vetiva examined factors surrounding and driving FMCGs' thriving performances and the expectation for the next half year.

Chinma Ukadike, the Consumer Goods Analyst at Vetiva believes that whilst the trend of impressive revenues and bottom-lines across the consumer goods sector has been driven by the growth in volume as evidenced in the sector's GDP performance, the real headliner is pricing, which has acted as a tailwind for growth in the sector. Meanwhile, she admits that the role of demand is not to be underplayed, despite the crunch to consumers' wallets from increasing energy tariffs, lingering pandemic effects and overall inflationary pressures.

In her outlook, whilst she expects the headwind from consumer disposable income to persist, she shared an optimistic view on volumes, which she linked to the expected rise in election spending for the second half of the year. Still, she highlighted the reopened Northern borders as a potential threat to local volumes. On the other hand, she still sees a sluggish half year for consumer discretionary players, given price levels and the state of consumer wallets.

Referring to the impact of the Russia-Ukraine crisis on FMCG players, Chinma stated that skyrocketing input prices as a result of global supply deficit leaves the industry's margin on a delicate balance. She expects that, with the recent pricing hike across board, producers may be unable to really respond with further hikes if costs escalate further. Additionally, whilst margins are currently strong, with FX sourcing remaining a challenge and rates depreciating further in the parallel market, producers would be hard pressed to maintain the status quo. Nonetheless, given that PAT grew by an average of 50% y/y in Q1, she expects PAT growth to average 2x to 2.3x for the FY'22 period

As the general elections draw closer, Chinma expects investors to become increasingly wary of political tensions and uncertainties. However, she does not expect swift sell-offs across the board, given the fundamentals that have driven the current rally. Overall, she expects the brewers to see continued, albeit dampened, positive sentiment in the second half of the year, riding on sustained positive bottom-lines.

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