



Highlights

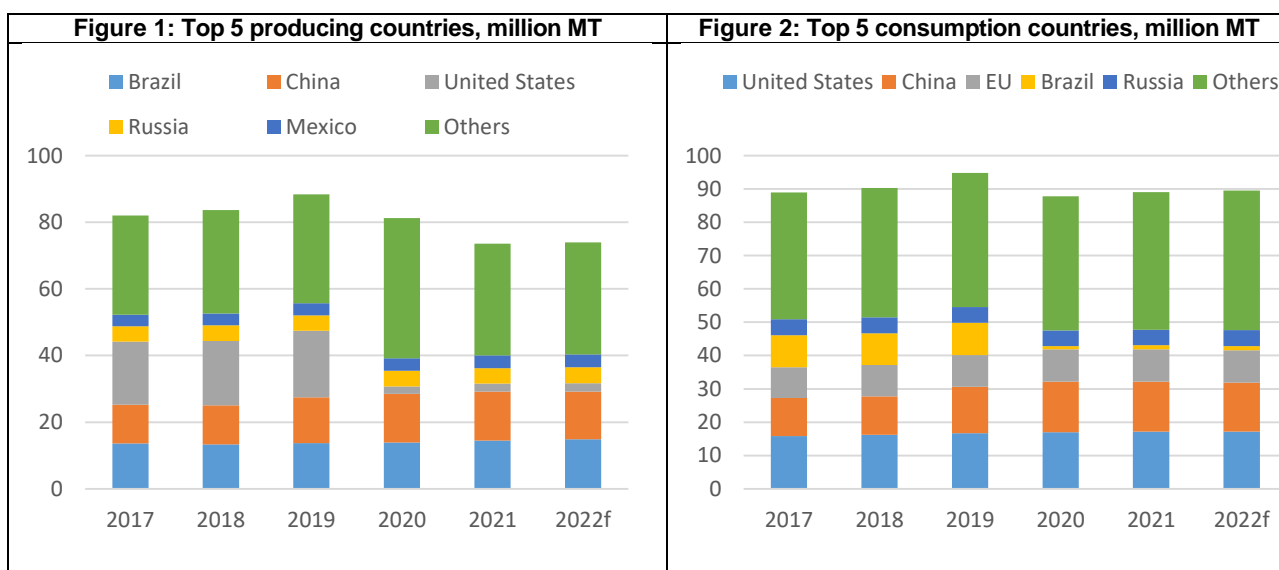
- Global chicken meat production decreased by 9.5% to 73.5 million metric tonnes (MT) in 2021 from 81.3 million MT in 2020.
- Global chicken meat production is forecast to increase by a modest 0.6% to 74.0 million MT in 2022.
- Global chicken meat consumption increased by 1.4% to 89.1 million MT in 2021 from 87.8 million MT in 2020.
- Global exports in 2021 increased by 1.6% to 13.3 million MT from 13.1 million MT in 2020.
- Global chicken meat exports are expected to increase by a modest 0.2 % to 13.4 million MT in 2022.
- Between 2008 and 2021, domestic meat poultry consumption grew at a CAGR of 3.2% compared to a CAGR of 3.2% for domestic poultry meat production.
- South Africa does not produce sufficient quantities of poultry meat to satisfy its domestic demand and, therefore, the shortfall in domestic consumption is covered by imports.
- Despite the good domestic crop, maize prices are likely to increase due to the ongoing Ukraine war which has led to an increase in maize and oilseed prices.
- The Bank's exposure in the poultry industry as of March 2022 was approximately 2.2% of the Bank's total loan book of just over R25.7 billion.

1. A GLOBAL PERSPECTIVE OF THE POULTRY INDUSTRY

1.1. Global production and consumption

Figure 1 below, shows the trends in global chicken meat production from 2017 to 2022 forecast (f). From 2017 to 2021, global chicken meat production decreased at a compounded annual growth rate (CAGR) of -2.2%. Global chicken meat production decreased by 9.5% to 73.5 million metric tonnes (MT) in 2021 from 81.3 million MT in 2020. Global chicken meat production is forecast to increase by a modest 0.6% to 74.0 million MT in 2022. The projected growth in the global broiler meat production will be supported by production growth in the United States (5.6%), Brazil (2.4%), Mexico (2.2%) and Russia (4.3%), amongst others.

Figure 2 below, shows the trends in global chicken meat consumption from 2017 to 2022f. Global chicken meat consumption increased at a CAGR of 0.04% between 2017 and 2021. Global chicken meat consumption increased by 1.4% to 89.1 million MT in 2021 from 87.8 million MT in 2020. Global chicken meat consumption is expected to increase by 0.5% to 89.5 million MT in 2022. The growth in global consumption will be supported by increasing demand in the United States (0.4%), the EU (0.6%) and Russia (3.4%), amongst others.



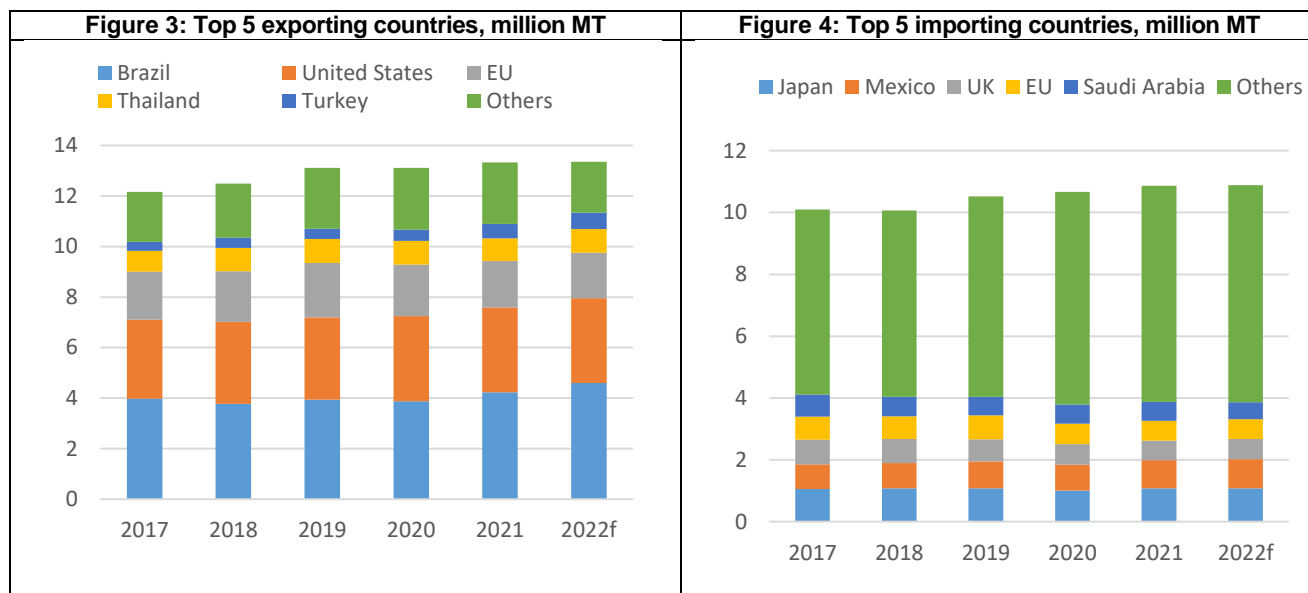
Source: Land Bank R&I, USDA.

1.2. Global trade

From 2017 to 2021 global chicken meat exports grew at a CAGR of 1.8%. Global exports in 2021 increased by 1.6% to 13.3 million MT from 13.1 million MT in 2020. The growth in global exports in 2021 was supported by countries such as Brazil (9.0%) and Turkey (28.0%). Estimates from

the United States Department of Agriculture (USDA) indicate that global chicken meat exports will increase moderately by 0.2 % to 13.4 million MT in 2022.

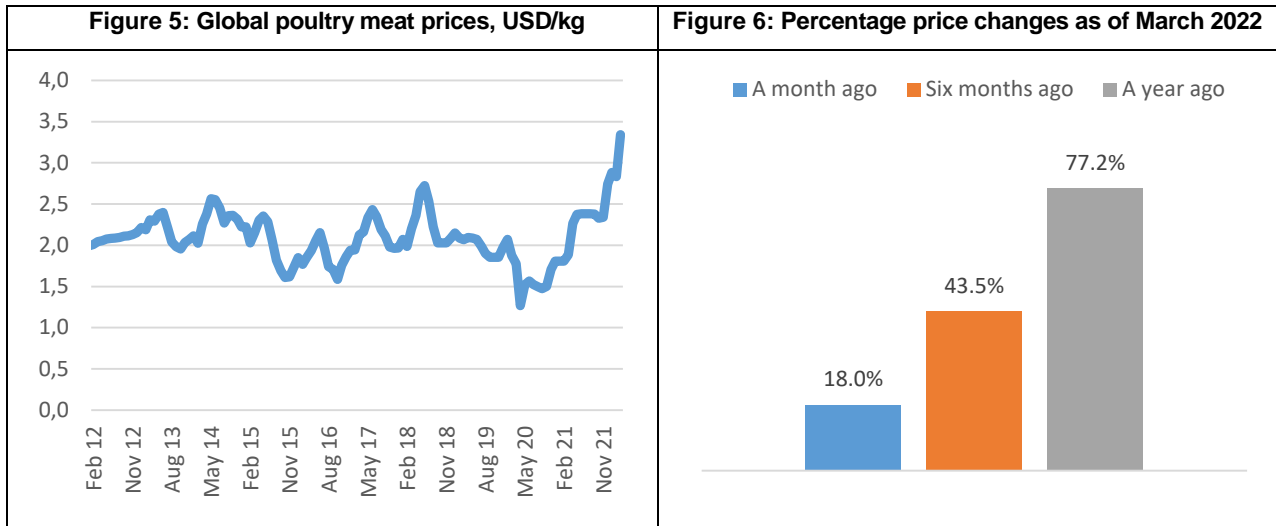
Global chicken meat imports increased at a CAGR of 1.1% between 2017 and 2021. Global chicken meat imports increased by 1.8% to 10.86 million MT in 2021 from 10.67 million MT in 2020. Global exports are forecast to increase by 0.2% to 10.89 million MT in 2022. The increase in global imports in 2022 will be supported by countries such as Japan (0.3%), Mexico (2.5%) and the United Kingdom (UK) (4.0%), amongst others.



Source: Source: Land Bank R&I, USDA.

1.3. Global prices

Figure 5 below, shows the average global monthly chicken meat prices in USD/kg from January 2010 to March 2022. As shown in Figure 5 below, global chicken meat prices have seen a sustained upward trend since April 2020, probably reflecting increased demand induced by the recovery in the global economy as a result of reduced COVID-19 restrictions. Figure 6 below, shows the changes in global chicken meat prices as of March 2022. In March 2022, the global price of chicken meat was USD 3.34/kg. As shown in Figure 6 below, in March 2022 global chicken meat prices were 18.0% higher compared to the previous month, 43.5% higher compared to six months ago and 77.2% higher compared to a year ago. The strong chicken meat prices are attributed to low global stock levels.



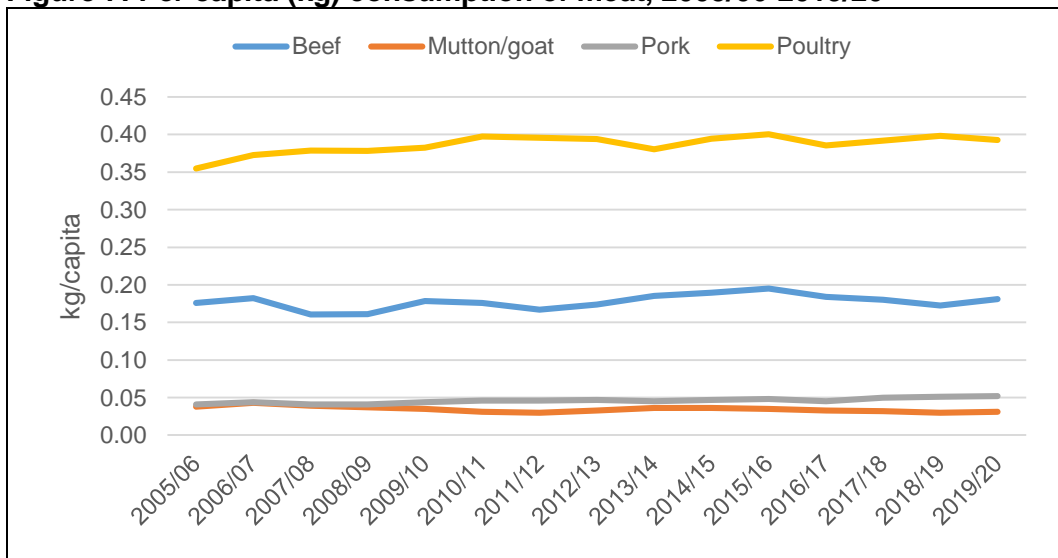
Source: Land Bank R&I, World Bank.

2. THE DOMESTIC POULTRY MARKET

2.1. Poultry production and consumption trends

Broiler meat is the major source of animal protein in South Africa and dominates the livestock sector in terms of production. Figure 7 below, shows the trends in per capita consumption for different kinds of meats in South Africa from 2005 to 2017. As shown in Figure 7 below, from 2005/06 to 2019/20 broiler meat has consistently had the highest per capita consumption compared to mutton, pork and beef. In 2019/20, broiler meat had a per capita consumption of 39.3kg compared to 18.1kg for beef, 5.2kg for pork and 3.1kg for mutton. This probably reflects the fact that broiler meat is the most affordable source of animal protein per kg in South Africa.

Figure 7: Per capita (kg) consumption of meat, 2005/06-2019/20

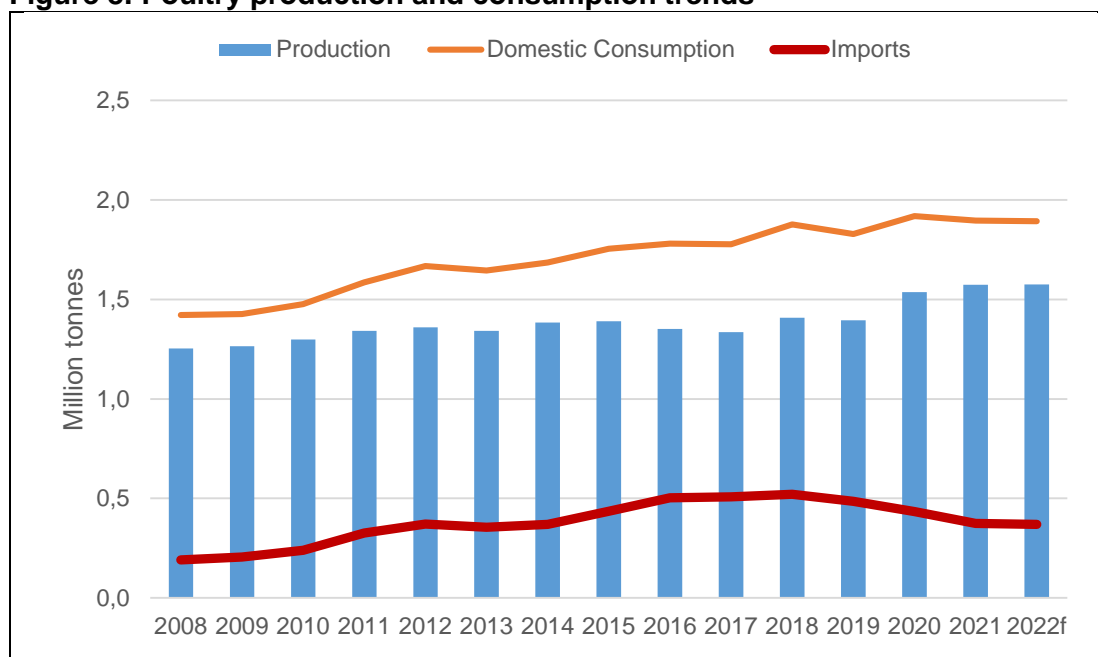


Source: Land Bank R&I, SAPA.

Figure 8 below, shows that chicken meat consumption and production have been increasing year on year. As shown in Figure 8 below, domestic chicken meat consumption has been growing faster than domestic chicken meat production during the period under review. Between 2008 and 2021, domestic chicken meat consumption grew at a CAGR of 5.9% compared to a CAGR of 4.7% for domestic chicken meat production. Nonetheless, as shown in Figure 8 below, domestic chicken production has seen a sustained upward trend between 2019 and 2021, growing by 11.9%. During the same period, domestic consumption has grown by a modest 0.9% while imports decreased by 29.0%.

The shortfall in domestic poultry meat consumption (approximately 19.8% of domestic consumption in 2021) was covered by imports. The substantial increase in consumption is largely driven by relative affordability of chicken meat compared to other meat products and population growth. Estimates from the USDA indicate that domestic consumption will reach 1.89 million tonnes in 2022, 0.16% lower compared to 1.90 million tonnes the previous season.

Figure 8: Poultry production and consumption trends



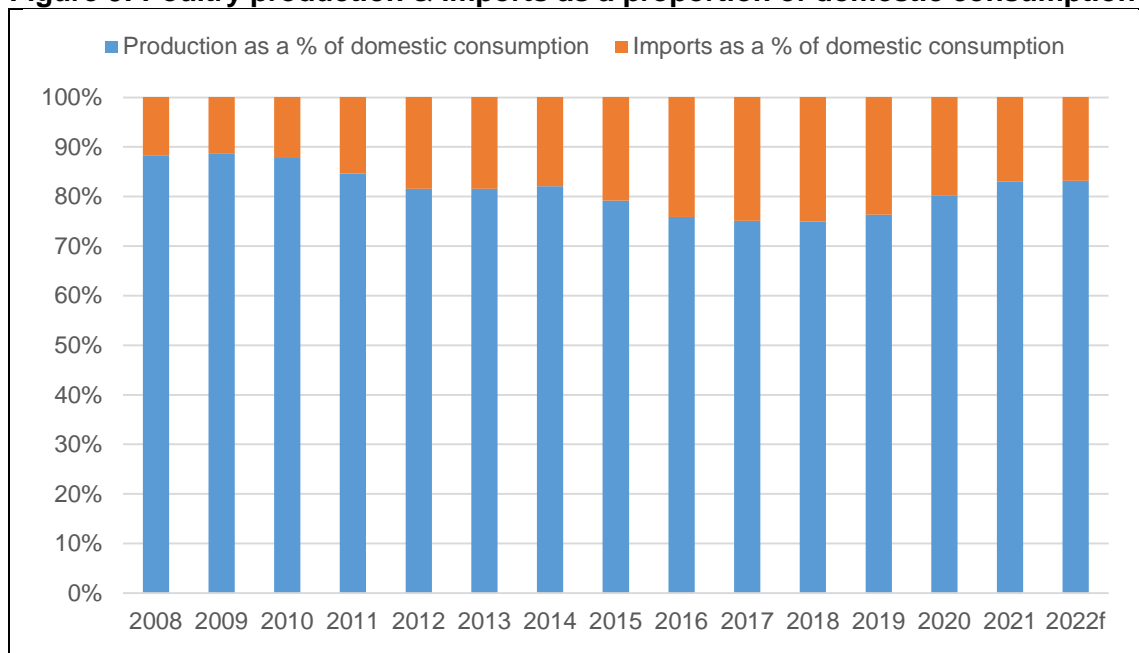
Source: Land Bank R&I, USDA.

2.2. International trade

South Africa does not produce sufficient quantities of chicken meat to satisfy its domestic demand. Therefore, the shortfall in domestic consumption is covered by imports. Figure 9 below, shows poultry meat imports as a percentage of domestic consumption has been decreasing since

2018. Chicken meat imports as a percentage of domestic consumption increased from 27.8% in 2018 to 19.8% in 2021.

Figure 9: Poultry production & imports as a proportion of domestic consumption

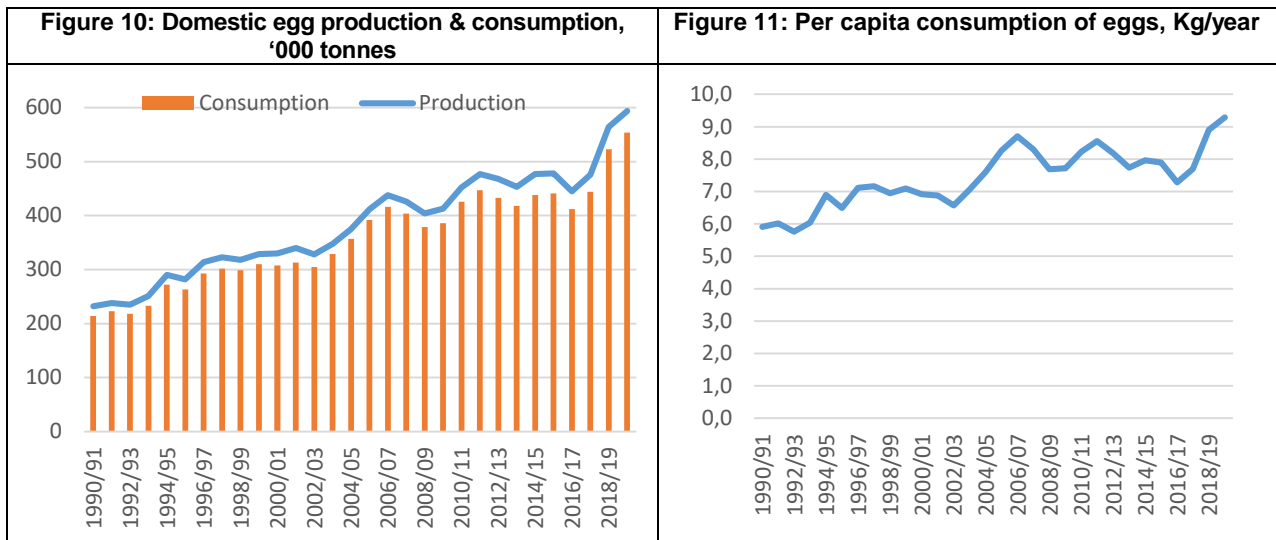


Source: Land Bank R&I, USDA.

2.3 The egg market

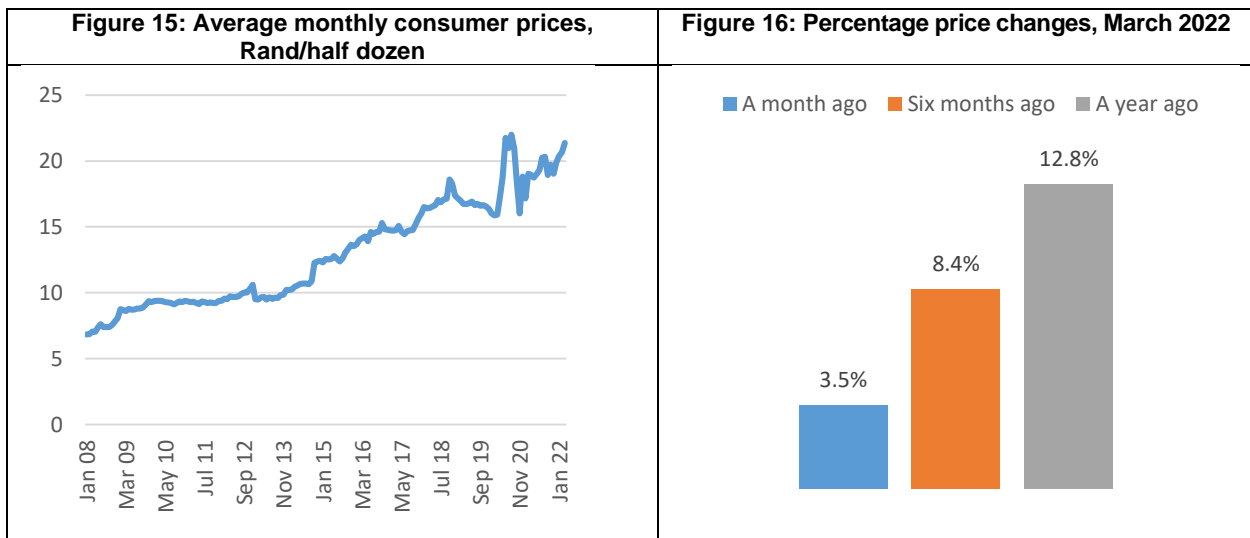
Figure 10 below, shows the trends in egg production and consumption from 1990/91 to 2019/20. Egg production increased by 5.3% in 2019/20 to 594 100 tonnes from 564 000 tonnes in 2018/19. In 2019/20, domestic egg consumption increased by 5.9% to 554 000 from 523 000 in 2018/19.

As shown in Figure 10 below, South Africa is self-sufficient in egg production. Egg production increased at a CAGR of 3.2% from 1990/91 to 2019/20 compared to 3.2% for egg consumption during the same period. In recent years the per capita consumption of eggs has been rising (see Figure 11 below). The per capita consumption of eggs rose from 7.28 kg/year in the 2016/17 season to 9.29 kg/year in the 2019/20 season.



Source: Land Bank's calculations based on SAPA's data.

Figure 12 below, shows the average monthly retail egg prices (half a dozen) from January 2008 to March 2022. As shown in Figure 12 below, prices have seen a sustained recovery since November 2021. Figure 13 below, shows that as of March 2022, the price of a half a dozen eggs was 3.5% higher compared to the previous month, 8.4% higher compared to six months ago and 12.8% higher compared to a year ago.



Source: Land Bank's calculations based on Stats SA's data

3. IMPLICATIONS FOR LAND BANK

3.1. Exposure

The Bank's exposure in the poultry industry as of March 2021 was approximately 2.2% (or R571.3 million) of the Bank's total loan book of just over R25.7 billion. The Bank's exposure to the poultry

industry is through the Commercial Development & Business Banking (CDBB) and Corporate Banking & Structured Investments (CB&SI). CDBB's exposure to the industry was approximately R181.5 million (31.8%) and CB&SI's exposure was approximately R389.8 million (68.2%).

Table 1 below, shows CDBB's clients in the poultry industry by exposure as of March 2022. As shown in Table 1 below, CDBB's top clients by exposure included Steenkamp Familie Trust (11.1%), Wamba Group (Pty) Ltd (8.2%), Matholwana 747 (Pty) Ltd (7.0%) and Murcus M Farming CC (6.2%), amongst others. As of January 2021, CDBB did not have non-performing loans (NPLs).

Table 1: CDBB's top clients by exposure

Client	Amount	Share
Steenkamp Familie Trust	R20 227 911	11.1%
Wamba Group (Pty) Ltd	R14 961 287	8.2%
Matholwana 747 (Pty) Ltd	R12 768 356	7.0%
Murcus M Farming CC	R11 237 466	6.2%
Tia Farming AND Nursery CC	R9 990 450	5.5%
Marsela Trading (Pty) Ltd	R9 462 125	5.2%
Sdudla Chicks (Pty) Ltd	R8 727 264	4.8%
O Lapeng Woman in Agriculture (Pty) Ltd	R8 039 584	4.4%
Cloy Farms CC	R7 506 766	4.1%
Moatswi Trust & Others	R7 249 328	4.0%
Others	R71 321 563	39.3%
Total	R181 492 100	100.0%

Source: Land Bank.

Table 2 below, shows that CB&SI's major clients by exposure as of March 2022 were AFGRI Poultry (Pty) Ltd (48.8%), ECO Pullets (Pty) Ltd (15.3%), Rossouw Pluimvee-Beherend (Edms) Bpk (12.6%) and Rossouw Pluimvee- Eiers (Edms) Bpk (9.8%), amongst others. During the same period, CB&SI did not any NPLs.

Table 2: CB&SI's top clients by exposure

Client	Amount	Share
Afgri Poultry (Pty) Ltd	R190 390 641	48.8%
ECO Pullets (Pty) Ltd	R59 794 954	15.3%
Rossouw Pluimvee-Beherend (Edms) Bpk	R49 135 937	12.6%
Rossouw Pluimvee- Eiers (Edms) Bpk	R38 163 269	9.8%
Rossgro Voere (Edms) Bpk	R29 386 943	7.5%
Eco Pullets Workco (Pty) Ltd	R10 333 840	2.7%
Eco Pullets Manco (Pty) Ltd	R8 209 842	2.1%
Rossouw Pluimvee Braaikuikens (Edms) Bpk	R2 531 321	0.6%
Earthstone Trading 2 (Edms) Bpk	R1 878 673	0.5%
Total	R389 825 420	100.0%

Source: Land Bank.

The clients listed in Table 1 above and in Table 2 above, particularly clients by NPLs, are likely to be affected in the event of negative market shocks, which affect the clients' ability to repay their loans. Therefore, the Bank should monitor these clients closely in the event of a negative market shock.

3.2 Outlook for the poultry industry

The poultry industry is likely to come under pressure as a result of rising feed costs. Despite a good maize crop the international trade disruptions caused by the Ukraine war are already causing increases in the price of maize and oilseeds, major inputs in the manufacture of animal feed. Poultry feed contains approximately 70% of maize. The increase in feed prices is likely to put poultry margins under pressure.

3.3 Is the poultry industry attractive for Land Bank?

The Bank's exposure to the poultry industry is currently low at 2.2% of the Bank's total loan book. Most of the Bank's exposure is in the primary sector of the value chain. Therefore, there are opportunities in the processing sector of the value chain that the Bank can explore. South Africa does not currently have the capacity to produce mechanically deboned meat (MDM). MDM which constitutes approximately 37% of South Africa's poultry imports is mostly imported from Brazil. MDM is used to manufacture cold meat products such as polony, viennas and sausages.

The Bank can play a key role in financing the industry with the necessary technology to make import substitution possible. The domestic manufacture of MDM is likely to create employment throughout the entire value chain. The Bank should therefore increase its exposure in the industry. This is likely to support the Bank's transformation and developmental agenda through job creation and the entry of emerging farmers into the poultry industry.

Compiled by: Gilberto Biacuana | GBiacuana@landbank.co.za | 012 686 0973

Sources:

1. International Trade Administration Commission
2. The World Bank Group
3. South African Poultry Association
4. United States Department of Agriculture, Foreign Agricultural Service

For more information contact The Information Resource Centre (IRC) at Npillay@landbank.co.za or 012 686 0963.

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