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Media Feedback Report

Mageu in South Africa

June 2017

Product Definitions

Product	Definition
Mageu	Mageu, also called mahewu, is a maize-based product and is available in both liquid (RTD) and powdered forms. The liquid product is a mix of maize meal, water and sugar, that has been cultured to form a non-alcoholic food-drink making use of a lactic acid fermentation. Apart from being a refreshing drink, mageu is a staple food for the working class citizen, often used to replace a meal at lunch, as a result of its reasonable price and high starch content.

Market Trends

The mageu market expanded in volume terms, despite a strong market recovery in 2015. The increase in average pricing, rather than an increase in volume, was a greater contributor to the overall value growth in the mageu market.

The mageu market growth may be primarily attributed to the entry of new UHT long life mageu in the last half of 2016. Traditionally, ready-to-drink mageu has been limited to certain channels in that it has a short shelf life and needs to be kept chilled. This long life addition to the market holds potential growth areas in bottom end retail or general trade, as well as in exports. These sectors could previously not be serviced due to short shelf life restrictions. The addition of long life mageu to the market could potentially negatively affect the powdered mageu product, with its long shelf life benefit. However, it should be noted that powdered mageu is distributed mainly to the on-consumption (schools and feeding schemes) and export channels, which for the most part depend on contracts and tenders procured from government.

Industry players reported that the increases in the maize price due to high import costs, together with the drought and failed maize crops, had a negative effect on their profit margins. In addition, higher fuel prices contributed to inflation in transport and distribution costs. Some players mentioned that they may reduce distribution to certain regions, where distribution is more costly, in order to retain higher profit margins.

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Market Trends Cont.

In 2016, inflation reached some of the highest levels seen in years. Many players did not pass the higher costs on to consumers but kept pricing static, or only slightly increased levels, to remain competitive in the market.

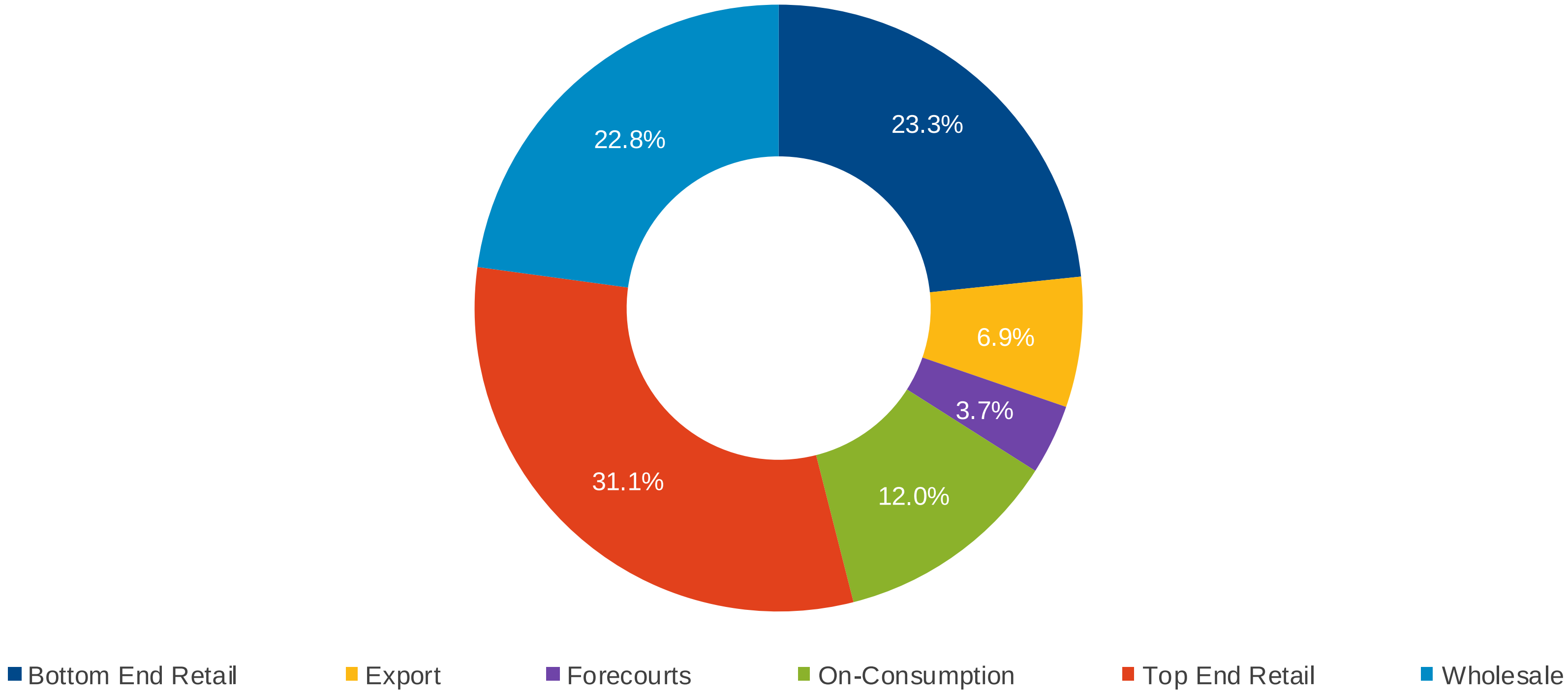
Mageu's primary packaging remains carton. The 500ml and 1 litre carton pack sizes remain the most popular for mageu consumers. The entrance of UHT products in HDPE plastic has seen the growth of this plastic pack type. This format is expected to continue to grow the mageu market in the future.

Top end retail was the preferred channel for this category for 2016. Almost a third (31.1%) of mageu was sold through this sector. Wholesale and bottom end retail both showed good growth in 2016 and are expected to continue in this trend. Noticeably, imported long life mageu products entered the market last year, but have not had a prominent impact on the overall market.

The mageu category, although considered fairly mature, is still showing positive signs of growth as industry leaders innovate and create new product offerings and flavours. The mageu industry is expected to continue in a growth trend, although not at the elevated rates seen in the last few years.

Channel Distribution 2016

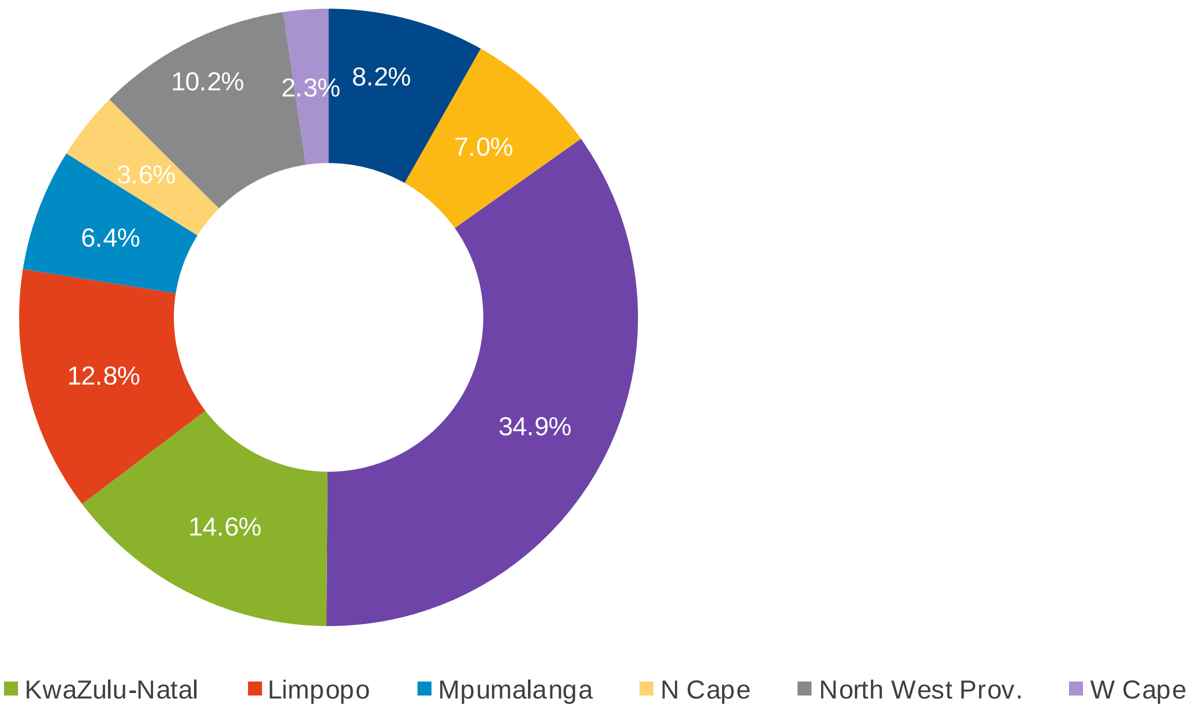
Million Litres



Top-end retail is the mainstay channel with a volume share of 31.1% of total volumes, with wholesale and bottom-end retail making up the rest of the major channels. The entry of UHT long life mageu offerings and innovative packaging may result in a dominance shift from top end retail to the informal, wholesale and bottom end retail channels, as these long life products gain popularity and increase their on-shelf presence in alternative sectors.

Regional Distribution 2016

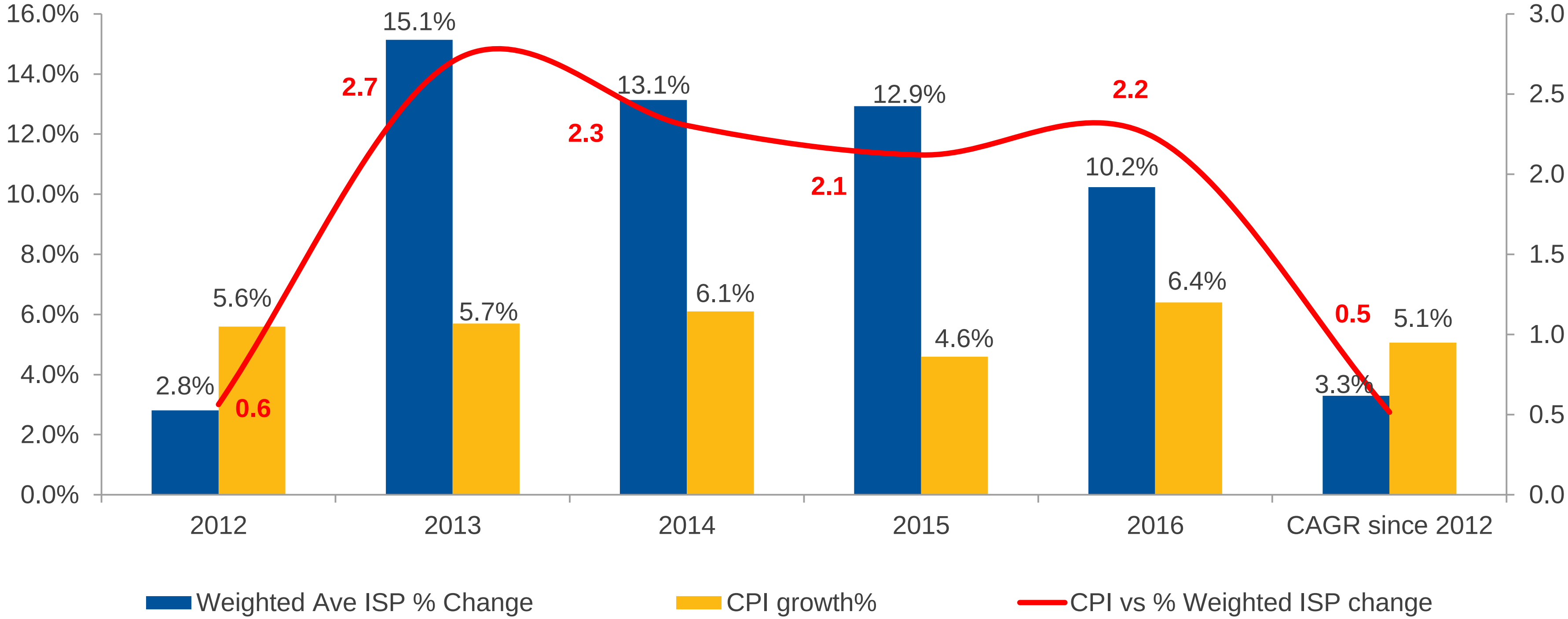
Million Litres



The Free State, Limpopo and Mpumalanga all showed strong year on year volume growth, of 9.0%, 13.5% and 10.8% respectively, highlighting that industry players focus on areas that demographically represent the highest consumption of mageu, other than Gauteng. Gauteng remains the stronghold channel through which the majority of mageu sales are driven.

Excludes Exports

Historical Average Industry Selling Price



The pricing per litre for the mageu category has increased by a limited 3.3% year on year. This highlights how industry players absorbed increased input costs and kept prices at very competitive rates so as not to lose share.

Pricing represents an average weighted Rand per Litre

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