

NEWSLETTER



DAIRY INGREDIENTS

Q1 2021

Dear Readers,

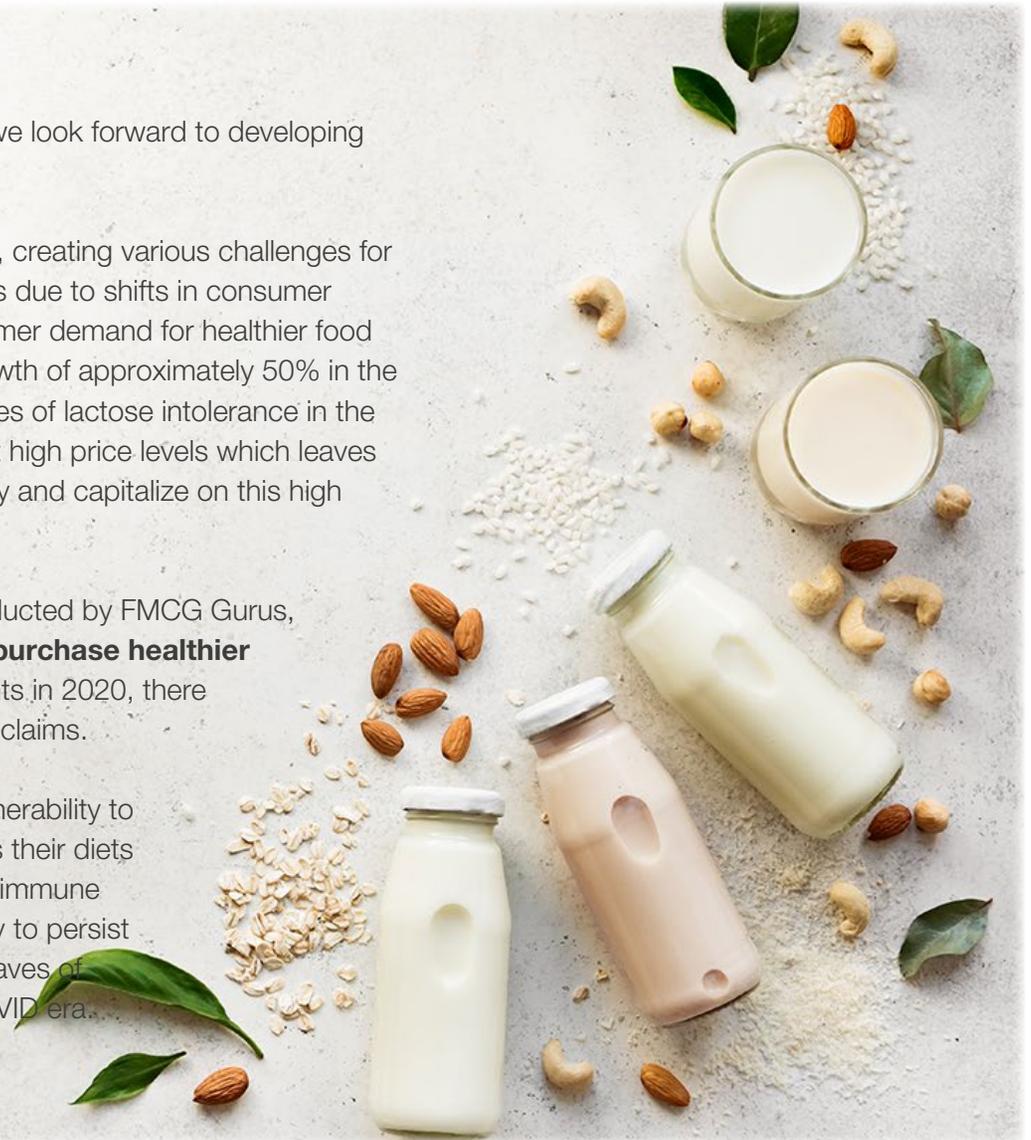
We thank all our customers who visited our stand at Gulfood and we look forward to developing those discussions towards a refreshing and successful 2021.

The COVID-19 pandemic has plagued the world for a full year now, creating various challenges for almost every industry but in its wake it has left various opportunities due to shifts in consumer dynamics. Since March 2020 we have witnessed a surge in consumer demand for healthier food and beverage products. The plant-based milk sector has seen growth of approximately 50% in the UAE due to the healthy perception of these products and rising rates of lactose intolerance in the region. However, these products are all currently being imported at high price levels which leaves an opportunity for local manufacturers to sweep market share away and capitalize on this high value growing trend.

According to a survey of 23,000 consumers across the globe conducted by FMCG Gurus, **72% of consumers are now making conscious decisions to purchase healthier food and beverage products.** According to Innova Market Insights in 2020, there were 4,450 new product launches globally with immunity boosting claims.

As a result of individuals questioning their health, immunity and vulnerability to disease, consumers are taking a more proactive approach towards their diets and lifestyles in order to maximize their health and strengthen their immune systems. This is a deep psychological consumer shift which is likely to persist well into the future. Brands which can adapt and ride these new waves of consumer demand will profit on growth opportunities in a post-COVID era.

Please contact us to discuss any of the solutions presented here.



High Margin & Growth Opportunities with Plant-Based Milks



The market for plant-based milk has grown 50% in 2020 according to a recent interview conducted with LuLu and other leading retailers in the UAE. However, it is foreign imported brands that are capitalizing on this growth in the GCC commanding prices of over 10 AED / Liter with some premium brands commanding 30 AED / Liter. Despite this high price point, the demand keeps growing and this has created a high value perception for plant-based products on the shelves in the GCC.



“ Supermarkets, online retailers, gas stations, coffee shops and hotels are all serving plant-based dairy alternatives from milks to creamers and ice creams. ”

“ Starbucks, Costa Coffee and all other Coffee chains have introduced plant-based milks to their menu. ”

Plant-Based Milk: Growth Key Factors

Below are some of the key factors driving the fast growth of this category in the GCC:



48% of consumers claim to prefer the taste of Almond and Oat Milk to Cow's Milk.



65% of Middle East consumers suffer from some form of lactose intolerance according to the Food Intolerance Network. 33.5% suffer from severe lactose intolerance according to the World Health Organization (WHO).



Consumers are moving towards healthier and cleaner label products which are free of cholesterol, antibiotics and hormones. In a 2020 Poll by Mintel 85% of Saudi adults said they are willing to make short term sacrifices for the sake of their long term health.



The COVID-19 pandemic has made a health a key priority for everyone and accelerated the trend towards healthier eating. Plant-Based diets are medically proven to be healthier than animal-based ones.



The pandemic has also created skepticism surrounding the origin of animal products and conditions in which animals are raised.



Issues of environmental sustainability and the ethics surrounding animal agriculture are turning some consumers away from animal-based products.



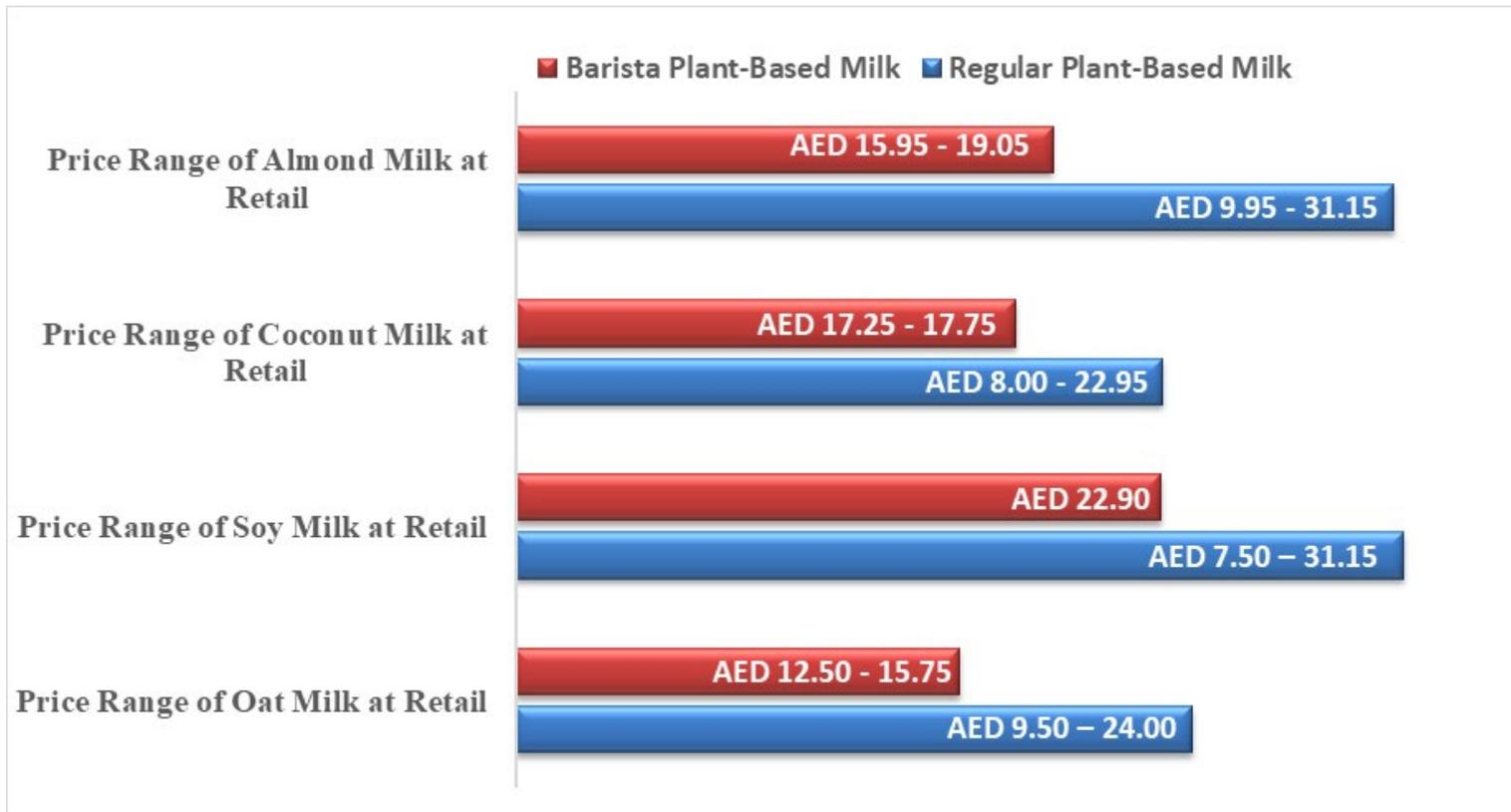
Plant-Based diets are free of cholesterol and are proven to reduce the risk of heart disease by 40%.

Plant-Based Milk Opportunity

These factors have created a clear opportunity for local brands to steal market share away from imported brands with more competitively priced products which can still command premium margins due to the high value pricing already present in this category.

According to Euromonitor, the market for health and wellness packaged foods was worth an estimated Dh3.9 billion in 2020 and is expected to grow to Dh4.6 billion by 2025. The fast growth of the market signals an opportunity for innovative companies to enter the market early and carve their space on the shelves before it gets more competitive.

PRICE RANGE OF IMPORTED PLANT-BASED MILK IN UAE (Pricing data from Carrefour, Lulu, Choithrams & Spinneys)



Imported Plant-Based Milks in the UAE Market



Almond Milk



Soy Milk



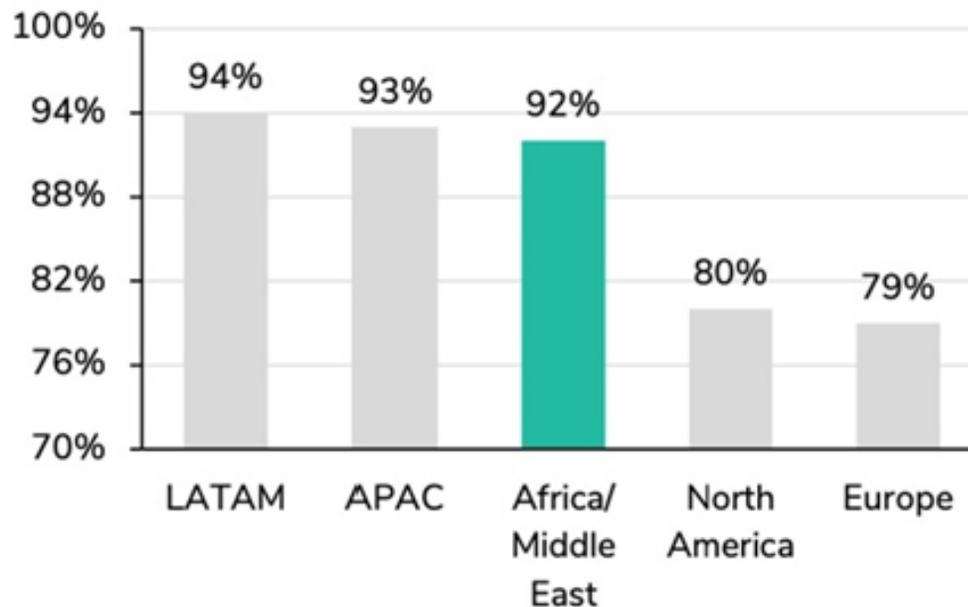
Oat Milk



Coconut Milk

Plant-Based Milk Opportunity

Consumer willingness to pay more for foods with health attributes, by region 2015



The flexitarian trend is growing fast with 42% of consumers now falling into this category and 12% in the vegetarian or vegan category. This means that 54% of consumers globally are now a captive market for plant-based alternatives.

Source: Nielsen, "What's in our Food and on our Mind" (August 2016); Nielsen, "We Are What we Eat" (January 2015)

Juhanya Launch in Egypt

In January 2021, Juhanya Industries launched a range of 5 plant-based milks: **Oat, Almond, Coconut, Soy and Hazelnut** with premium positioning.



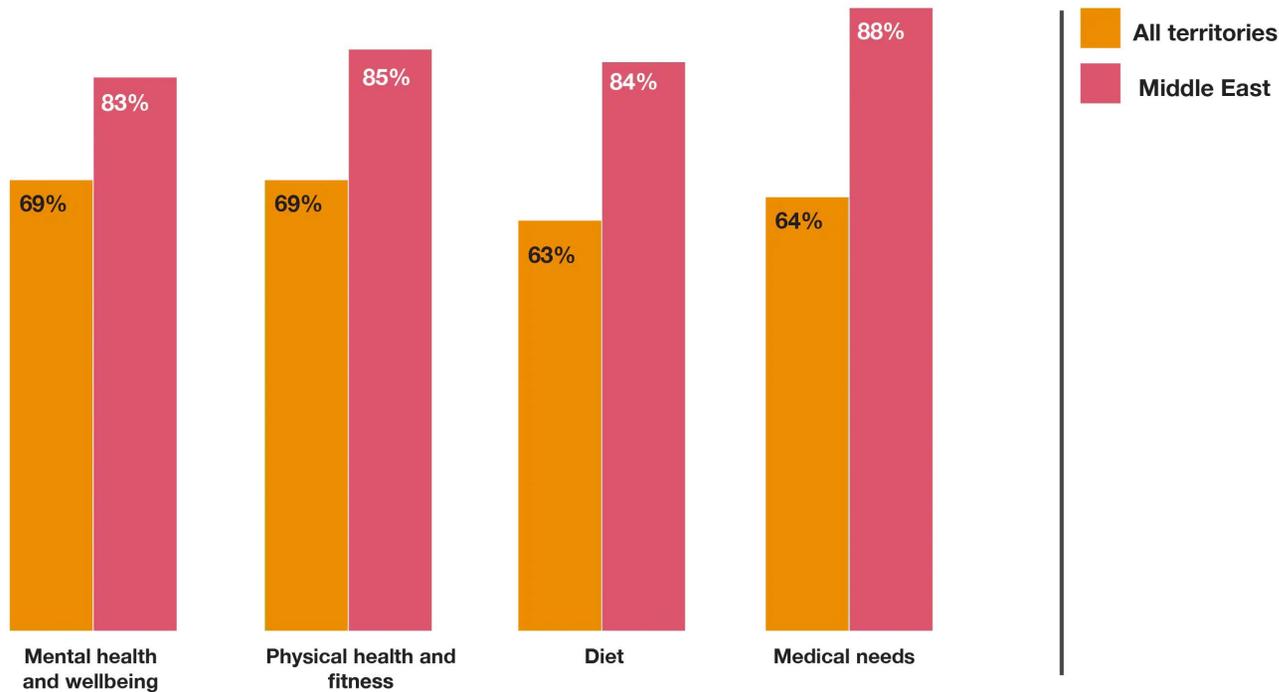
Celebrity actress and model Tara Emad as the brand ambassador for Juhayna N&G plant-based milk products.



Middle East Consumer Data

Figure 3 As a result of the COVID19- situation, I am more focused on taking care of my

Agree



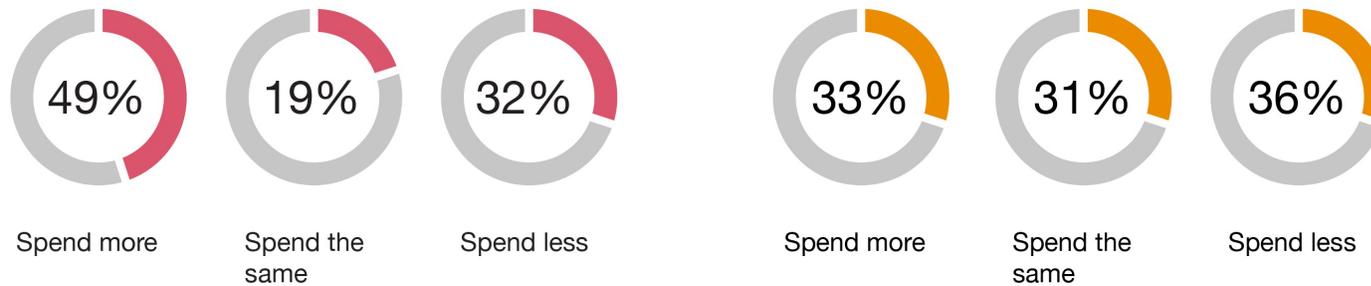
The data sets below show the importance Middle East Consumers are placing on health and that 49% of GCC consumers are willing to spend more after COVID-19.

Base: Middle East 501, All territories 4,447
Source: PwC, Global Consumer Insights Survey COVID-19 Pulse

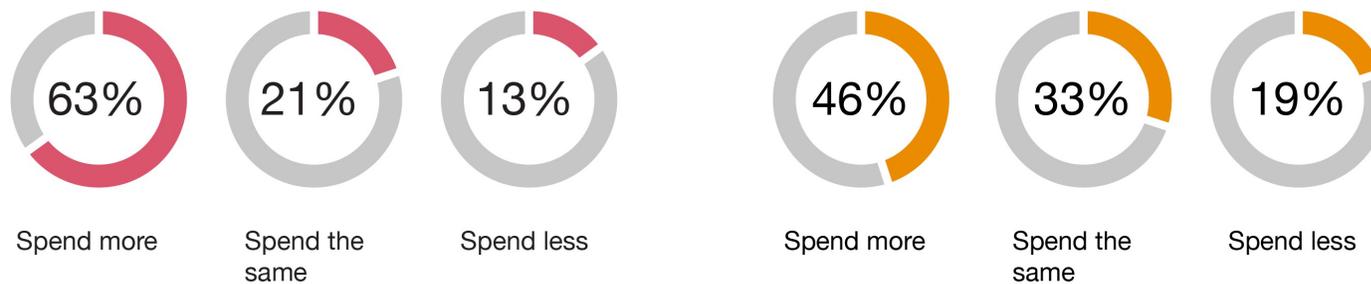
Middle East Consumer Data

Figure 4 Middle East consumers are more optimistic than those in other territories but still limiting their spending

After COVID-19 outbreak



Before COVID-19



■ Middle East
 ■ All territories

After COVID-19 outbreak question, 2020: How do you expect your household spend to change over the next few months?

Base: Middle East 501, All territories 4,447

Source: PwC, Global Consumer Insights Survey COVID-19 Pulse

Before COVID-19 question, 2019: In terms of your personal spend for the next 12 months, do you expect to...

Note [before COVID-19]: 2% of those in the Middle East and 4% of those in All territories who answered 'spend less' said they are already holding back spending. 4% in the Middle East and 3% in All territories stated 'don't know'.

Base: Middle East 1,020, All territories 19,098

Source: PwC, Global Consumer Insights Survey 2020

Glucono Delta Lactone (GDL) For White Cheese and Other Applications

Glucono Delta Lactone or GDL as it is popularly known as, is an organic compound which is widely used as an additive in food production.

GDL is often used as a sequestrant, acidifier, preservative, leavening agent and for curing and pickling in food production.

Below are some examples of GDL's use in commercial food applications:

- ✓ As a coagulant: In cheese to coagulate milk proteins
- ✓ As a preservative: In beverages and in milk products
- ✓ As a stabilizer and coagulant: In tofu, sausage, surimi
- ✓ As an acidifier: In sauces, dressings, pickles and other savory applications
- ✓ As a preservative: In seafood
- ✓ As a leavening agent: In baking powder to help in fermentation
- ✓ As a gelling agent: In tofu to curdle soy milk

FSL has secured an agency agreement with Suzhou Nutribute Biotechnology Co. Ltd. in China to offer this functional ingredient to our customers in the region. Suzhou Nutribute is one of the leading manufacturers and exporters of Nutrition Supplements, especially for Minerals (Gluconate). Their factories have more than 20 years production experience and can promise the most competitive prices while offering quality products and services.

FSL can now offer and deliver GDL to our customers from our local warehouses for all type of food applications.

Please contact us to learn more.



Dairy Commodities Market Dynamics



Dairy commodity prices in 2020 did not find much stability over an extended period and kept buyers pondering the best time to purchase. In hindsight, we can say that from the buyers perspective, the best decisions for SMP purchases from Europe were taken in April, post which the price tide reversed and continued to move up.

While prices saw a very sharp decline in a short span at the start of the pandemic in end Q1 / early Q2 2020, we saw the prices surge back up after the steep fall until the year end. The average prices for 2020 however were lower than those in January 2020 for these products.

The reasons that can be cited for the increase include: No intervention stocks in Europe, strengthening of Euro against USD, increased demands of certain products from Europe due to non-availability from Oceania and an increased demand from large economies like China, as they opened again for imports.

SMP: For the period Jan-Nov 2020, the EU 28 saw an increase of approx. 41,000 MT over LY for the same period for 2019. The EU 28 produced over 1,414k MT of SMP in the first eleven months of 2020 as compared to 1,373k MT for the same period of 2019.

For the period Jan-Nov 2020, Germany emerged as the largest producer out of Europe with 377k MT followed by France with 370k MT and Poland a distant third with 151k MT. These three countries contribute to app. 63.5% of the total SMP produced in EU – 28 for the period of Jan-Nov (total production being 1,414k MT). Germany, Ireland and Netherlands saw an increase in their production over 2019 with a positive contribution of 15,500; 14,500 and 4,000 MT respectively. France and Denmark on the other hand saw a drop of 8,800 MT and 4,000 MT respectively as against 2019 volumes of SMP produced.

SMP prices from Germany averaged out to 2,241 Euro / MT FOB for the year 2020. This is higher than the average price of 2,154 Euro / MT FOB for the year 2019. After starting at levels of 2,625 Euro in Jan 2020, the prices saw a steep decline with the lowest price of 1,980 Euro / MT recorded in April, 2020. After this the prices saw a continuous increase and the trend continues into 2021 with prices averaging at 2,350 Euro / MT FOB as of mid-Feb 2021.

Dairy Commodities Market Dynamics

SMP from Oceania recorded an average price of 2,447 Euro / MT FOB for the year 2020, as against 2,345 Euro / MT FOB for the year 2019. However, the prices from Oceania also followed the downward trend as seen in Germany where the prices slipped to their lowest level of 2,306 Euro / MT FOB in the month of June 2020 after starting at an average level of 2,724 Euro / MT FOB in Jan. 2020. Post June, the prices have been following an upward trend and the average mid-Feb price from Oceania stands at 2,640 Euro / MT FOB.

SMP prices from USA averaged at 2,050 Euro / MT FOB for the year 2020 as against an average of 2,086 Euro / MT FOB for 2019. They recorded their lowest price in April 2020 at 1,800 Euro / MT FOB, a steep fall from 2,460 Euro / MT FOB recorded in Feb 2020 due to the impact of the pandemic.

The strengthening of the Euro and increased demand from China have been the driving factors for the rising SMP prices from Europe. Due to increased demand, we are also seeing almost no availability for Q1 and limited stock availability for the first half of Q2. With the increased demands, the prices are expected to remain firm for rest of Q1 and early Q2.

The average price of SMP from Germany as of mid Feb. 2021 stands at 2,350 Euro/MT FOB as against 2,100 Euro / MT FOB from US and 2,640 Euro / MT FOB from Oceania.

WMP: The WMP volumes from Europe for 2020 were similar to volumes produced in 2019. Europe shipped approx. 736,000 MT of WMP in 2020, with Germany leading followed by the Netherlands and France.

Germany was the largest contributor LY like in 2019, accounting for approx. 33% of total EU WMP production, a contribution of app. 246 MT for the period of Jan-Dec 2020. The Netherlands maintained its second position in 2020 like 2019, with a contribution of 178k MT followed by France with a 118k MT production of WMP for the period of Jan-Dec 2020.

The average price for WMP for the year 2020 tallied to approx. 2,820 Euro / MT FOB from Germany as against an average of 2,940 Euro / MT FOB for 2019. Just like SMP, the WMP average prices were lower than the starting price of 3,075 Euro / MT FOB in Jan 2020. The lowest price for WMP from Germany for this year was recorded in the month of May with an average of 2,615 Euro / MT FOB.

Dairy Commodities Market Dynamics

WMP prices from Oceania averaged at 2,600 Euro / MT for the year 2020, as against 2,800 Euro / MT FOB for the year 2019. However, the WMP prices from Oceania averaged at a higher rate for the year against their starting price of 2,580 Euro / MT FOB in Jan. 2020. The lowest price for WMP from Oceania for this year were recorded in the month of May with an average of 2,477 Euro / MT FOB.

WMP prices from US averaged at 3,285 Euro / MT FOB for the year 2020 as against 3,330 Euro / MT FOB for the year 2019. WMP prices from the US averaged at a lower rate for the year against their starting price of 3,580 Euro / MT FOB in Jan. 2020. The lowest price for WMP from US for this year recorded in the month of August at an average of 3,108 Euro / MT FOB.

The average price of WMP from Germany as of mid Feb. 2021 stands at 2,870 Euro / MT FOB as against 2,910 Euro / MT FOB from US and 2,780 Euro / MT FOB from Oceania.



Please contact FSL if you are interested
in any of the products showcased above:

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