AVIAGEN EAST AFRICA LIMITED

# BUSINESS PLAN FOR THE ESTABLISHMENT OF A POULTRY FARMING PROJECT.

1st March, 2020

## EXCUTIVE SUMMARY

**Company & Project concept.**

Aviagen East Africa Limited is limited Company incorporated in Tanzania under the Company act of 2002. The Company was incorporated 30$^{th}$ January, 2020, and bears Certificate of Incorporate No. the 140917745. Company belongs to agriculture sector and specifically poultry farming

**Company Objectives**, Aviagen East Africa Limited is legally formed to fulfil the following objectives. To carry out poultry farming business, specifically parent stock and grandparent stock.

**Purpose of feasibility report**: This document is prepared to the serve the purpose as a feasibility study for Aviagen East Africa Limited for her poultry farming Project as well as to be submitted to TIC for an award of TIC Certificate of Incentives.

**The project promoters,** the project will be managed and operated by Aviagen East Africa Limited. The Company is owned by British, Mauritius and South African investors with the following shares distribution.

**Company Legality**, the legal certificates and documents such as Memorandum and Article of Association, certificate of incorporation, justify that Aviagen East Africa Limited will be operating within the ambit of the law of the Land

**Project Organization Structure**, the management of Aviagen East Africa Limited constituted by the following organization set up:- Board of Directors, who are responsible on the management on the entire operations of the Company

**Investment Structure,** the project is estimated to cost USD$ 13,000,000 the money covers land (Farm No. 2 Ol Molog) being purchased  at Siha District, Plant, Vehicles, Furniture & Fittings, Pre-expenses, and Working Capital.

## BASIC INFORMATION

| | |
|---|---|
| Name of company: | Aviagen East Africa Limited |
| Address: | P.O. Box 534 Arusha |
| Telephone: | +255 713 336 936 |
| Project Location | Siha District, Kilimanjaro Region |
| Certificate of Incorporation no. | 140917745 |
| Sector | Agriculture |
| Sub sector | Poultry Farming |
| Total Cost of estimated Investment. | USD 13,000,000 |
| Directors | i. Thomas Alan Exley<br>ii. Stephen Robert Mcphillips<br>iii. Richard Arthur Stuart Keeley<br>iv. Jack Malcolm Searle |

## 1. PROJECT OBJECTIVES

Aviagen East Africa Limited is legally formed to fulfil the following objectives, to carry out poultry farming business, specifically parent stock and grandparent stock.

The company plans to build a new green field investment, Grandparent hub for East Africa in Tanzania. The main objective is to achieve approximately 70% market share with profitable Ross sales by 2025.

The new company shareholders are as followed: Aviagen European Holdings Limited, 52%, African Poultry Development Limited through Tanbreed Limited, 24%, Country Bird Holdings Proprietary Limited, 24%, who is Aviagen preferred partner in SSA region. All the partners PS business is tied up with Aviagen.

Hubbard has a partner in Kenya called, Avipro, they started their Grandparent operation in 2019. Hendrix genetics and Sasso are also cooperating with the Gates Foundation in the territory.

The parent stock market is also growing in Uganda, Rwanda as well however; these markets were historically Cobb markets. From 2019 Aviagen began to sell Ross parent stock to those countries. Aviagen sells Naked Neck males to Tanbreed and Kenchic exclusively.

Irvine Cobb has initiated a 'NewCo' parent stock operation (Euro Poultry) in Tanzania. Saudi based company Organia is invested heavily in Tanzania however financial stability is questionable. Tanbreed have plans to increase Naked Neck placements from 30,000 – 60,000 in the next 3 years.

Basically the Poultry sector growing together with the many small scale farmers.

### 1.1 Key Region Objective / Strategy:

The company's strategy is to supply Ross 308 FF parent stock from the this project as a hub to the region and to the territory.

To establish strong partnerships with the current and future customers across the region and be the Supplier of Choice.

To support the local poultry industries, with the good product and continuous training.

## 2. LOCATION OF THE PROJECT

Aviagen East Africa Limited will conduct this project Farm No. 2 Ol Molog, Siha District, Kilimanjaro Region.

## 3. INVESTOR PROFILE/PROJECT PROMOTERS

| Name | Nationality | Shares% |
|---|---|---|
| Aviagen European Holdings Limited | British | 52% |
| Tanbreed Limited | Mauritius | 24% |
| Country Bird Holdings Proprietary Limited | South African | 24% |

African Poultry Development Limited/Tanbreed Limited is the market leader in Kenya and Tanzania, with approx. 800,000 parent stock capacity with currently with 2 companies, Kenchic in Kenya and Tanbreed Poultry Limited in Tanzania, they are both fully integrated and market leaders. Ross 308 FF products will be used in the hub.

## 4. INVESTMENT COSTS

The total investment cost is USD Thirteen Million (USD 13,000,000). The Investment Financing Plan is as follows in Million US$.

Foreign Equity - 13,000,000

Foreign Loan - 0

The Investment Breakdown is as follows in Million US$.

| | |
|---|---|
| Land/Building – | 10,450,000 |
| Plant - | 1,500,000 |
| Vehicles - | 350,000 |
| Furniture & Fittings - | 100,000 |
| Pre-expenses - | 100,000 |
| Working Capital – | 500,000 |
| **TOTAL** - | **13,000,000** |

## 4.1 Financial and Economic Analysis

The projection for financial statements was based on the following assumption:-

- The implementation of the project will cost USD13,000,000
- The capital expenditure will spread over a period of the five years
- Implementation cost take into consideration inflation rate/influx.

## 4.2 Financial Statement of Project

The financial projection is based on the assumption that the prices of input and output are accurately estimated over the project useful lifetime that is five years. However be cause of unforeseen events in the future, the prices of these inputs and outputs will be adjusted accordingly in order to maintain objective of the comply, that is maximizing next profit and at he sauce time to ensure customer satisfaction by providing the right product service at the right price and time. Expenditure items are as shown in the financial statements. They include all major costs items plus depreciation changes and financial charges. They are also listed under annual costs in the financial statements.

## 4.3 Projected Cash Flow Statement

The business has a positive net cash flow estimating that the project must be implemented. But also this guarantees the Company to meet its entire obligation.

## 4.4 Projected Profit and Loss Amount

The computations of the company projected profit and loss account show a respectable turnover. This tourism business this is good, is it can be seen; the projected profit and loss of statement of the company is strong and sound. Hence the company is expected the following taxes;- Skilled Development Levy, Insurance, Land Rent Tax, PAYEE, NSSF & Corporate Tax

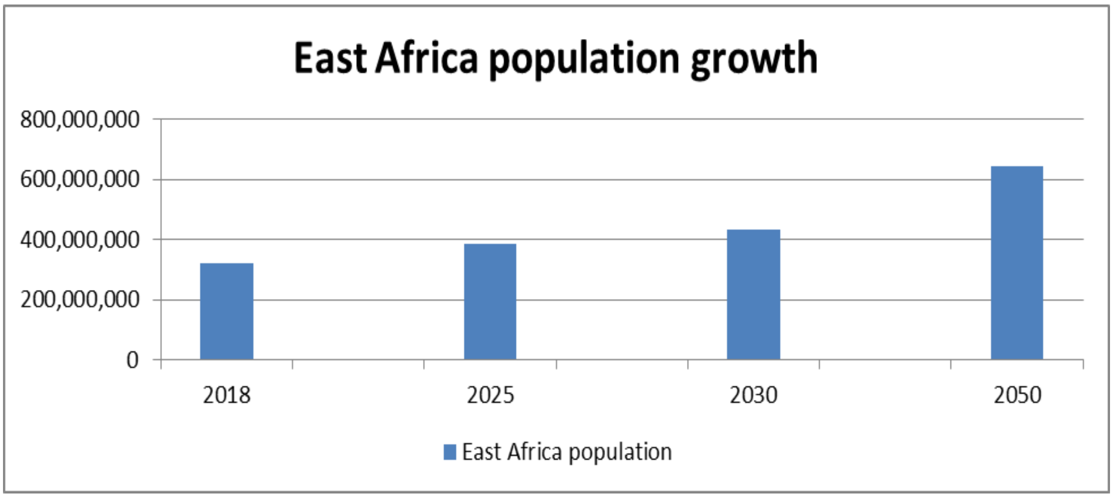
## 4.5 Projected Balance sheet

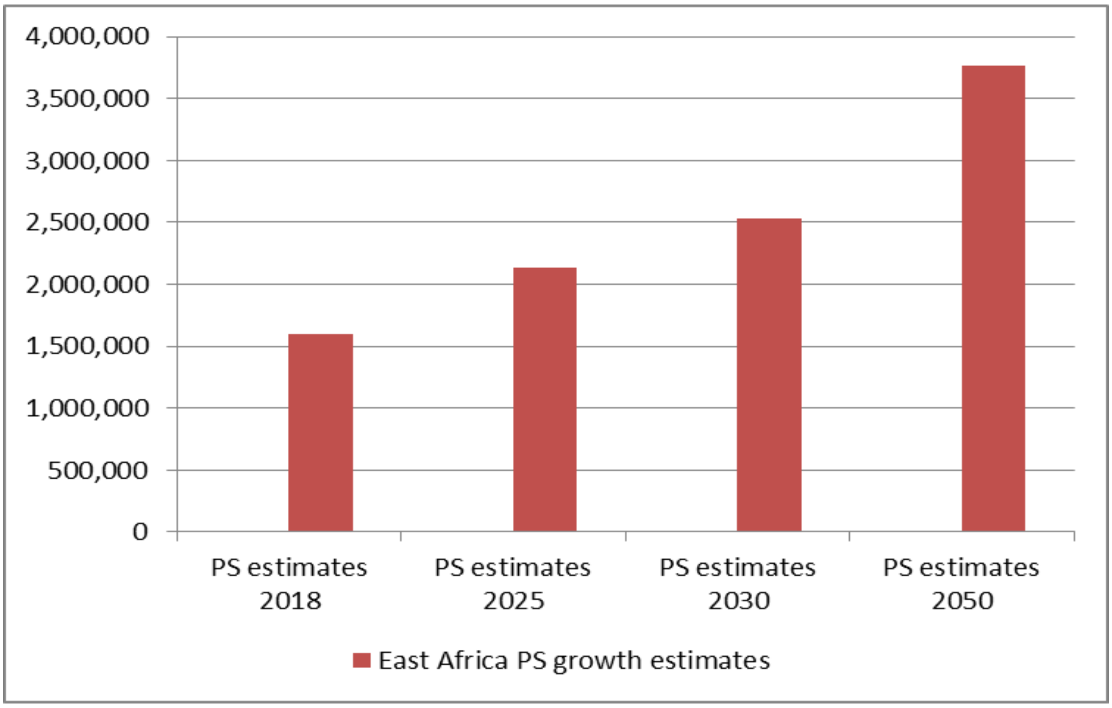
The projected current assets and current capabilities estimates that the company financial status is strong. As the result we expect the company to meet all its financial and Administrative transaction without difficulties

# 5. MARKETS OVERVIEW

The current market is mainly a live chicken market, around 60-65%. The rest is processed. The majority is still whole chicken. The future trend is the processed which will increase as the QSR brand is expanding and with the middle income growing; they are able to spend more.

The main meat is beef and fish which represent around 69% of the meat consumption. The poultry meat consumption is low in the region, around 1.2-1.5 kg per capita. The growing population will increase the poultry consumption.



## 6. ECONOMIC SWOT ANALYSIS

**Strengths:**

- Large population growth.
- Agricultural based economy employing 80% of the work force and represents 85% of exports revenue.
- Tourism plays an important part to some countries.
- Kenya aims to remain the commercial hub for East Africa.
- Currency susceptible to exchange fluctuations. Kenya has been relatively stable recently.
- Government has simplified the establishment of new businesses.
- Well educated population.

**Weaknesses:**

- Very low per capita chicken consumption.
- Many obstacles to foreign investment due to bureaucratic attitude.
- One of the world's poorest economies in terms of per capita income
- Land prices are higher where water resources are found.
- High fuel prices due to high government taxation
- Limited loans to small business projects
- Poor national infrastructure.
- Corruption is an issue.

**Opportunities:**

- In order to maintain the per capita consumption at its current level with the increasing population growth, chicken meat production needs to increase to meet this demand.
- Chinese investments
- Expansion of tourism
- Economy is expanding over 5-6% % per annum
- Urbanization

**Threats:**

- Many obstacles for foreign investment due to bureaucratic attitude.
- One of the world's poorest economies in terms of per capita income
- Limited loans to small business projects.
- Difficult to obtain credit facilities unless you are a successful established business

## 7. INDUSTRY SWOT ANALYSIS

**Strengths:**

- Well organised and professional poultry industry.
- Continued expansion of poultry projects.
- Well educated population
- Increasing population provides an opportunity for higher chicken consumption
- Has good production of maize and soya but has potential to grow more
- Availability of land and water resources to increase agriculture production
- Good infrastructure which allows easy links to neighbouring countries

**Weaknesses:**

- Village and backyard chicken widely 'farmed'
- The presence of middlemen chick traders contributes to the cost of production
- The climate is hot and humid and existing poultry facilities are not equipped to manage these elements.
- Ongoing disease challenges due to poor bio-security and management.
- High feed cost, poor quality and availability
- Lack of infrastructure
- Lack of power supply in certainly areas – temporary
- Poor road network and transportation
- Lack of finance for poultry producers
- Biosecurity concerns and high diseases prevalence due to backyard poultry
- Inadequate management competences
- Red meat is the preferred protein and it is cheaper than chicken.

**Opportunities:**

- Total poultry population growing.
- Poultry can be used as a tool to alleviate poverty while ensuring food security
- There is a high demand for poultry products in schools, hotels and organisations which cannot be met.
- Agro Processing is a high priority and capital investments required
- International poultry companies looking for investment
- Expansion plans from local large-scale poultry companies
- Need poultry production hub for the region
- Established and efficient maize and soya production
- Import meat volume is not high

**Threats:**

- Bill Gates foundation has given grants to and is working in close collaboration with WPF (World Poultry Foundation) for the development of indigenous breed
- Hendrix genetics and Sasso are also cooperating with the Gates foundation and WPF in the development and improvement of indigenous breed
- Governmental bureaucracy and regulations limiting the establishment of a modern industry.
- Some illegal imports.

## 8. MARKET SUPPLY AND MARKET SHARE

Current market share leader is Cobb in the region with 60-70% market share. With the new project and hub strategy, this trend would be the opposite and Aviagen aim to get 70% market share in the region.

Rwanda and other East African countries have begun to use more Aviagen products. Byinzika became a 100% Ross customer in Uganda and other industry players will follow them. Rwanda poultry industry choice is now Ross, the first shipment will be supplied to the country in January 2020.

### 8.1 Main players from the region and their sizes

| Company | | Annual PS Equivalent Purchases | Ross % | AA % | IR % | Cobb % | Hubbard % | Others % | Customer Type |
|---|---|---|---|---|---|---|---|---|---|
| Tanbreed (associated with Kenchic) | Tanzania | 150,000 | | 16% | | 84% | | | Integration |
| Europoultry | Tanzania | 50,000 | | | | 100% | | | PS Hatchery |
| Kibo | Tanzania | 20,000 | | | | 100% | | | PS Hatchery |
| Organia | Tanzania | 72,000 | | 50% | | 50% | | | PS Hatchery |
| Silverland | Tanzania | 50,000 | | | | | 50% | 50% | PS Hatchery |
| Irvine | Tanzania | 40,000 | | | | 100% | | | Integration |
| Mkuza | Tanzania | 10,000 | | | | | 100% | | |
| Kenchick | Kenya | 350,000 | 14% | 21% | | 66% | | | Integration |
| Sigma Farm | Kenya | 30,000 | | | | 100% | | | PS Hatchery |
| Kenbrid | Kenya | 45,000 | | 100% | | | | | PS Hatchery |
| Bradegate hatchery | Kenya | 20,000 | | | | 100% | | | PS Hatchery |
| Isinya Feeds | Kenya | 70,000 | | 22% | | 78% | | | |
| Pluriton | Kenya | 5,000 | | 100% | | | | | |
| Byinzika | Uganda | 80,000 | 75% | | | 25% | | | |
| Ugachick | Uganda | 50,000 | | | | 100% | | | |
| Kuku Chick | Uganda | 30,000 | | | | 100% | | | |
| SR Afro Chicks and Breeders | Uganda | 20,000 | | | | 100% | | | |
| Butenga Farmers | Uganda | 15,000 | | | | | 100% | | |
| Aseema Farm | Uganda | 15,000 | | | | 100% | | | |
| Quantum | Uganda | 15,000 | | | | 100% | | | |
| ASIIMA | Uganda | 12,000 | | | | 100% | | | |
| ERAM | Uganda | 5,000 | | | | 100% | | | |

## 9. COMPETITOR REVIEW

**Cobb**

Cobb's market share through Kenchic was increased in the past by supplying into their wholly owned operations with GP's originating from Hybrid Zambia.

**Irvine's Group**

Irvine Cobb have set up a 'Newco' in Tanzania – see earlier comment.

**Cobb Europe / Cobb Africa**

Cobb is sold by Cobb Africa and supplied from Cobb European supply base. Cobb has a good reputation in the market due to customer preference on the live market.

Cobb provides regular tech service especially for broilers with a broiler specialist from Brazil. However, Cobb refuses to supply small orders (up to 1,000 PS)

**Hubbard / Avipro Mauritius and Avipro Kenya**

Hubbard is supplied by Avipro Kenya locally. Hubbard supplies mainly small orders (up to 1,000 PS). They work with traders who consolidate a couple of small orders and imports on behalf of customers. Hubbard identify the price and Avipro supply in the region

## 10. SOCIAL AND ECONOMIC IMPACT OF THE PROJECT

The proposed project will result into the following social and economic impacts:

- Increasing and enhancing the provision of high quality poultry in Tanzania and Region
- The proposed project in investment will provide employment to more than 100 people
- The Government and other agencies will benefit from various taxes, fees and commissions that will be paid to the government by Aviagen East Africa Limited.

**PROJECTED INCOME & EXPENDITURE STATEMENT**

| PROJECTED INCOME & EXPENDITURE STATEMENT | | | | | | |
|---|---|---|---|---|---|---|
| | | YR 1<br>USD | YR 2<br>USD | YR 3<br>USD | YR 4<br>USD | YR 5<br>USD |
| Sales Revenue | | 1,784,000 | 2,972,000 | 4,194,000 | 5,378,000 | 6,536,000 |
| Cost of Sales | | 1,090,000 | 1,710,000 | 2,369,000 | 3,001,000 | 3,703,000 |
| Gross Profit | | 694,000 | 1,262,000 | 1,825,000 | 2,376,000 | 2,833,000 |
| General Administrative and Other Expenses: | | 227,000 | 227,000 | 227,000 | 227,000 | 227,000 |
| Depreciation | | 239,000 | 309,000 | 353,000 | 401,000 | 471,000 |
| Operating Profit | | 228,000 | 726,000 | 1,245,000 | 1,748,000 | 2,134,000 |
| Finance Costs | | 320,000 | 360,000 | 360,000 | 330,000 | 300,000 |
| Profit before Tax | | (92,000) | 366,000 | 885,000 | 1,418,000 | 1,834,000 |
| Tax (30%) | | - | 109,800 | 265,500 | 425,400 | 550,200 |
| Profit After Tax | | (92,000) | 256,200 | 619,500 | 992,600 | 1,283,800 |

| PROJECTED BALANCE SHEET | | | | | | |
|---|---|---|---|---|---|---|
| | | YR 1 USD | YR 2 USD | YR 3 USD | YR 4 USD | YR 5 USD |
| Fixed Assets | | | | | | |
| Long-term Assets | | 10,450,000 | 9,405,000 | 8,464,500 | 7,618,050 | 6,856,245 |
| Depreciation | | (1,045,000) | (940,500) | (846,450) | (761,805) | (685,624) |
| Total Long-term Assets | | 9,405,000 | 8,464,500 | 7,618,050 | 6,856,245 | 6,603,745 |
| Current Assets | | | | | | |
| Cash | | 1,055,000 | 1,258,220 | 1,299,883 | 1,379,153 | 1,597,364 |
| Accounts Receivable | | 147,017 | 173,080 | 195,453 | 114,069 | 129,157 |
| Stock | | 200,533 | 220,674 | 225,892 | 246,509 | 279,321 |
| Total Current Assets | | 1,402,550 | 1,651,974 | 1,721,228 | 1,739,731 | 2,005,842 |
| **Total Assets** | | **10,807,550** | **10,116,474** | **9,339,278** | **8,595,976** | **8,609,587** |
| **Current Liabilities** | | | | | | |
| Accounts Payable | | 4,298,900 | 3,507,958 | 2,559,809 | 3,165,870 | 3,099,771 |
| Income taxes payable | | 500,650 | 352,000 | 326,000 | 475,600 | 550,400 |
| Subtotal Current Liabilities | | 4,799,550 | 3,859,958 | 2,885,809 | 3,641,470 | 3,650,171 |
| Long-term Liabilities | | | | | | |
| Long-term Loan | | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| **Net Liabilities** | | **4,799,550** | **3,969,758** | **3,151,309** | **3,641,470** | **3,650,171** |
| **Capital and Reserves** | | | | | | |
| Cash | | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 | 3,600,000 |
| Owners Contribution | | 2,500,000 | 2,500,000 | 2,500,000 | 1,000,000 | 1,000,000 |
| Retained Earnings | | (92,000) | 156,516 | 353,469 | 354,506 | 359,416 |
| Total Capital | | 6,008,000 | 6,256,516 | 6,453,469 | 4,954,506 | 4,959,416 |
| Total | | **10,807,550** | **10,116,474** | **9,339,278** | **8,595,976** | **8,609,587** |

**PROJECTED STATEMENT OF CASH FLOWS**

| | | YR 1 USD | YR 2 USD | YR 3 USD | YR 4 USD | YR 5 USD |
|---|---|---|---|---|---|---|
| | | | | | | |
| **CASH PROVIDED BY THE FOLLOWING ACTIVITIES** | | | | | | |
| | | | | | | |
| **OPERATING** | | | | | | |
| Net earnings | | (92,000) | 256,200 | 619,500 | 992,600 | 1,283,800 |
| Depreciation | | 239,000 | 309,000 | 353,000 | 401,000 | 471,000 |
| | | 147,000 | 565,200 | 972,500 | 1,393,600 | 1,754,800 |
| Change in working capital accounts | | | | | | |
| Accounts receivable | | (87,000) | (43,080) | (65,453) | (89,069) | (294,157) |
| Inventory | | 200,533 | 220,674 | 225,892 | 246,509 | 279,321 |
| Other assets | | 0 | 0 | 0 | 0 | 0 |
| Accounts payable | | 4,298,900 | 1,200,000 | 886,534 | 669,645 | 794,562 |
| Income taxes payable | | 0 | 0 | 0 | 0 | 0 |
| **Total** | | 4,559,433 | 1,942,794 | 2,019,476 | 2,220,685 | 2,534,526 |
| | | | | | | |
| **FINANCING** | | | | | | |
| Repayment of long- term loan | | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| **CHANGE IN CASH** | | 4,559,433 | 1,942,794 | 2,019,476 | 2,220,685 | 2,534,526 |
| | | | | | | |
| **CASH BEGINNING OF THE YEAR** | | 1,055,000 | 1,258,220 | 1,299,883 | 1,379,153 | 1,597,364 |
| | | | | | | |
| **CASH, END OF THE YEAR** | | 5,614,433 | 3,201,014 | 3,319,359 | 3,599,838 | 4,131,890 |

**OPERATING COSTS**

| | | **YR 1 USD** | **YR 2 USD** | **YR 3 USD** | **YR 4 USD** | **YR 5 USD** |
|---|---|---|---|---|---|---|
| Depreciation | | 239,000 | 309,000 | 353,000 | 401,000 | 471,000 |
| Operating profit | | 228,000 | 726,000 | 1,245,000 | 1,748,000 | 2,134,000 |
| **TOTAL** | | **467,000** | **1,035,000** | **1,598,000** | **2,149,000** | **2,605,000** |

**COST INVESTMENT STRUCTURE AT FULL CAPACITY**

| **Current assets** | **Rate** | **USD** |
|---|---|---|
| Working capital | | 1,055,000 |
| Opening stock | | 200,533 |
| Account receivable | | 147,017 |
| | | 1,402,550 |
| **Property and Equipment** | | |
| Long - term assets | | 10,450,000 |
| Depreciation | (10%) | (1,045,000) |
| | | 9,405,000 |
| **Total Assets** | | **10,807,550** |
| | | |
| Current Liabilities | | |
| Account payable | | 4,298,900 |
| Income tax payable | | 500,650 |
| | | 4,799,550 |
| Owner's Equity | | |
| Cash | | 3,600,000 |
| Contributed asset value | | 2,500,000 |
| Less Retained Earnings | | (92,000) |
| | | 6,008,000 |
| **Total** | | **10,807,550** |