Vibrant Africa beckons investors

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Africa's economic potential has grown beyond tourism

By Fiona Rintoul

"SHINE on black stars" was the chant for Ghana during the recent World Cup in South Africa. But ultimately, Ghana lost to Uruguay.

In investment terms too, Africa has usually come second to emerging markets in Latin America and Asia. Now, however, there are signs the global investment community has woken up to Africa's potential.

Last month, Boston Consulting Group released a report, 'The African Challengers.' Global competitors it said, were emerging from "the overlooked continent" and McKinsey published an 80-page report talking up Africa's "lions."

"Economic stagnation in the last two decades of the 20th century in Africa was followed by annual gross domestic product growth of 4.9% a year in 2000 to 2008," says McKinsey.

Today, Africa has a level of urbanisation nearly as high as China's with 52 cities of more than 1 million people. Collective GDP in 2008 was $1,600b (about sh3.6 trillion) and combined consumer spending totalled $860b.

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“If you visit Nigeria, you can feel the energy. You can smell it,” says Funmi Akinluyi, the investment director for sub-Saharan equities at Silk Invest, breathing life into the dry numbers.

Global executives and investors “must pay heed” to this vibrant continent, McKinsey has said, and pay heed they have. Africa regional funds attracted inflows of $484m in the first half of 2010, according to EFPR Global, and total investment fund allocation to Africa was a record $1.39b.

Against a difficult global economic background, Africa regional funds have enjoyed 43 consecutive weeks of inflows totaling $579m since September 2009.

“In terms of sustained interest in Africa, this marks a real turning point,” says Cameron Brandt, global markets analyst at EPFR Global.

How to explain this?
Mainly it is the perception of Africa that has changed, and the World Cup’s role in that should not be underestimated.

“The South African World Cup has been a major window of opportunity to shed light on Africa and rediscover it,” says Koffi Vovor of Kusuntu, Le Club, an association of diaspora executives that promotes change and investment through private equity in Africa.

“People have started to realise they are perceiving the continent with a 20 to 30 years old lens.”

Chris Derksen, the head of frontier markets at Investec Asset Management, agrees it is all about outside perception. “Nothing has changed on the continent itself. It’s been the right time to start investing in Africa for 10 years or so.”

Relativity plays some role in the new perception. With the developed markets looking less than super-safe in the wake of the global financial crisis, investors are reassessing other regions.

“In the last few years, emerging markets have become more mainstream generally,” says Sonal Pandit, the manager of the JPM Africa Equity Fund at JPMorgan Asset Management.

“As they get better known, investors have tried to look at who the next few candidates would be. The African continent still offers a lot of opportunities.”

A key driver of growth in Africa, says Pandit, is increased investment by China. According to China’s Ministry of Commerce, Sino-African trade reached $106.8b in 2008, up from $10b in 2000.

Resource-hungry China is investing in Africa’s infrastructure in order to access the continent’s abundant natural resources.

Foreign investors have chased Africa’s resources before, not always with happy results. But, says Pandit, this time it’s different. China is not just exploiting resources; it is investing in its future.

"It's far more symbiotic than before. For example, because China wants access to oil and gas exploration in Nigeria, it has been prepared to put down $23b for three oil refineries."

As infrastructure improves, so economic growth will expand. "If countries can achieve 6% annual GDP growth without infrastructure, think what they will be able to achieve with it!" enthuses Akinluyi.

That, at least, is the theory, and there are plenty of numbers to underpin optimism. Africa's demographic profile is stellar, by 2050 it will be home to one-third of the world's under-25s.

There are more middle-class families in Africa than in India and they are under-penetrated in every conceivable area: telecommunications, consumer goods, financial services.

But however bullish you are on Africa, the fact remains it is not easy to invest there. Capital markets are shallow, many stocks are illiquid, information is scarce and the continent is just about as diverse as it is possible to be.

Deep local knowledge at the micro level is essential, and if you do not have that, there is, says Derksen, a very good case for investing in companies with a high exposure to Africa that are listed abroad.

Otherwise, many of the best opportunities lie on the private equity side.

But even then, deal flow is not yet strong enough, says Vovor, and government incentives are needed to accelerate the project pipeline.