

Africa on verge of investment bonanza

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By Simon Avery, Globe and Mail

Over past few years, continent can boast of new infrastructure, better governance, improved fiscal and monetary management, a reduction in debt loads, and a decrease in inflation and interest rates

The prospect of anemic growth in North America and Europe, as well as concerns about an overheating economy in China, are spurring some investors to look to Africa for more robust investment gains.

From Abuja, Nigeria, to Yamoussoukro, Ivory Coast, the young populations, plentiful natural resources and a gradual expansion of infrastructure are turning Africa into an enticing proposition. The situation is similar in some ways to the financial opportunities that emerged in Russia after the fall of the Soviet Union, said Alison Graham, chief investment officer for Voltan Capital Management LLC in New York.

When Russia opened its stock market at the end of 1996, it was handling \$10-million (U.S.) worth of transactions a day. That soared to more than \$6-billion in only 10 years, and the associated wealth quickly transformed urban centres.

Africa is in the first year of a similar process, Ms. Graham said. "Russia had a large consumer population ready to buy. And it had a large natural resource base. It could literally pull money out of the ground to pay for its spending," she said.

"We're now seeing the same in Africa - a consumer base that really hasn't even started buying what the middle class in America buys, and the resource base to pay for it, if it is properly managed."

Ms. Graham's Frontier Markets Fund has been steadily increasing its holdings over the past couple of years in more than a dozen African countries; today the region accounts for about 40 per cent of the fund's value. She cites numerous changes in Africa during the period that have increased her enthusiasm for local stocks, including better governance, improved fiscal and monetary management, a reduction in debt loads, and a decrease in inflation and interest rates.

Nigeria is of particular interest for Voltan Capital. The government has taken important steps toward greater democracy, while regulators have instituted a fundamental overhaul of Nigeria's banking sector, including imprisoning corrupt executives and performing rigorous stress tests on two dozen banks (10 of which failed).

In addition to financial services, prime growth sectors in Africa include mining, construction and consumer goods. The mining of iron ore has increased significantly in response to Chinese demand. Breweries, phone companies and fast-food outlets are also seeing revenues climb rapidly, but profit margins in the consumer sector will remain razor-thin for a long time, Ms. Graham said.

One catalyst for African economic growth in recent years has been the arrival of Chinese investors, who are building extensive infrastructure, from roads to hotels, opening up

countries such as Congo and Sierra Leone where major Western investors have been hesitant to go, she said. China considers Africa a key part of its 100-year industrialization plan and is investing now to feed its resource needs for decades to come. It is also buying African assets to reduce some of its huge surplus in U.S. currency, Ms. Graham said.

African stock markets have performed erratically this year. In Kenya, the Nairobi main index is up about 30 per cent, delivering the best performance on the continent, followed by Uganda, up more than 25 per cent. The exchanges in Zimbabwe and Malawi, meanwhile, have declined this year, according to data from Imara Group, an investment management firm specializing in Africa.

Voltan Capital's Frontier Markets Fund has posted a double-digit gain, according to Ms. Graham, although she declined to provide full details.

It is the prospect of returns in excess of 10 per cent that is attracting investor attention in the West, where market analysts warn that stocks could remain range-bound in the single digits for years to come. This week, UBS economists forecast that global GDP growth would reach just 4.1 per cent this year. They expect that China will lead at 10 per cent, Brazil will follow at 8.2 per cent and the euro zone and Britain will pull up the rear at 1.7 and 1.6 per cent, respectively. The survey did not include Africa.

While African economies do not face the same structural challenges as developed economies, they carry their own types of risk. That point was driven home at the start of the year when the government of President Robert Mugabe, who has run Zimbabwe for three decades, introduced the Indigenization and Economic Empowerment Act. It requires foreign investors to sell majority ownership stakes in any Zimbabwe operation to local investors within five years. The country's stock exchange index plummeted on the news, after more than doubling in 2009. Other major risks include currency devaluation, which would dilute the value of a foreign investor's stake, and poor liquidity.