

## Is Africa next big thing for investors?

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The appeal of investing in Africa is that its future is still ahead of it. The region is setting out on the journey to economic, financial and industrial development that places like Latin America and main En in Asia, the last next big things, embarked on 20 or 30 years ago. This rosy outlook may explain why Africa's stock markets have done better in the recent past than mainstream emerging markets. The MSCI Emerging Markets Index fell 10,B per cent in the 12 months through February 11. While the firm's Frontier Markets Africa Index, which tracks the continent's smaller ex- changes, rose 3.4 percent. Investors apparently recognize Africa as a place to capture growth in a world that otherwise has little of ii to offer "The compelling case for the region is driven hygrowth, which is driven by demographics," says Larry Seruma, manager of the \$42 million Nile Pan Africa Fund, the best performer among the few funds that specialize in African stocks since it was introduced about four years ago. Economic output per capita "is very low and growing at a very fast rate, and in 2050 Africa will have the largest workforce globally. There will be opportunities to provide goods and services to this growing population." Sub-Saharan Africa is also benefiting from business-friendly policies, such as privatization of state industries and construction of large-scale infrastructure projects, says Babatunde Ojo, an analyst specializing in the region for the portfolio manager Harding Loevner. Governments "are doing things to reduce the cost of doing business and improve economic growth," Ojo says. The Harding Loevner Frontier Emerging Markets Fund has 26 percent of its \$340 million of assets in Africa. Seruma is excited about Africa's infrastructure development opportunities, including roads as well as power and communication lines "from Cape town to Cairo." He envisions a virtuous circle in which better infrastructure helps businesses reduce operating costs and improve returns, and increase tax revenue.

That will create the where withal for governments to finance further development. As infrastructure is put in place, more products and services will be available at lower prices and to more consumers, further expanding growth. For investors interested in joining the march to prosperity, Ojo suggests

several stocks from his firm's portfolios that meet these key criteria: "well-positioned, with a competitive advantage in a growing industry. 1' one is a prospective beneficiary of increased infrastructure spending: Dangote Cement PLC in Nigeria. Dangote has "the best margins in the world" for its industry, Ojo says, because it's an especially low cost manufacturer and cement prices are higher in Africa than elsewhere.

Indeed, Dangote's return on equity of about 45 per cent is more than double the average for the global basic materials sector. CORPORATE CUSTOMERS Ojo favours two oilier Nigerian companies, Zenith Bank PLC and Guaranty Trust Bank PLC, for their strong asset quality, capable management and emphasis on a corporate clientele. Across the continent, Safaricom Ltd in Kenya is "a very good example of a dominant telecom player," controlling two-thirds of the country's market, Ojo says. That may not seem to leave much scope for expansion, but Safaricom is experiencing rapid growth in data usage and services for corporate customers to compensate for stagnation in voice traffic, he adds. Seruma also owns Dangote and the two banks, but his phone company of choice is MTN Group Ltd, a cellphone service provider with operations in South Africa, Ghana, Zambia and Nigeria. MTN "has a four per cent yield, low- debt and tremendous growth potential," particularly in mobile usage, he says. His price target on the stock of \$24.50 is nearly 40 per cent above recent prices. Africa Oil Corp. and Tullow Oil PLC are smart plays on natural resources, Seruma says. Africa Oil explores for oil and gas in partnership with Tullow and has discovered oil reserves In Kenya. His price targets for the stocks are 1,235 British pence for Tullow, about a 55 per cent gain from current levels, and C\$15 for Africa Oil, about 80 per cent higher above where it stands. A more staid selection, Old Mutual PLC, is a South African financial services concern. As Africans grow wealthier, they need a place to put their money and also buy mortgages, investment products, insurance and other financial products.

Reuters Nairobi Securities Exchange.

Safaricom Ltd is a good example of a dominant telecom player controlling two-thirds of the country's stock market.