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Sub-Saharan Africa: A world of opportunity

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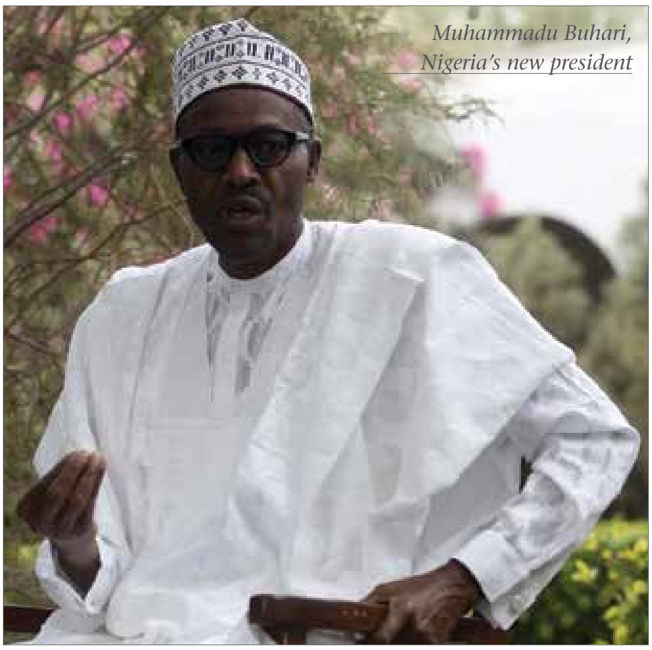
Success story of the millennium?

Optimism continues to surround Sub-Saharan Africa's growth prospects, despite current worries linked to falling oil prices and China's slowdown

By: Elliot Wilson

MANY TALK OF this being China's century, yet over the past 15 years Sub-Saharan Africa has run the People's Republic close. To some, this region, once impoverished and war-torn, now one of the most optimistic places around, can even claim to be the economic success story of the new millennium. Gross domestic product across the region has grown by an average of more than 5% a year since 2000, according to data from the World Bank, buoyed by better governance, the spread of democratic principles and economic reforms.

Democracy has gone hand in hand with deregulation and market liberalization, opening once-closed markets to unfettered enterprise. In 1989, just three regional economies were considered even partly democratic. By 2014, according to the US non-governmental organization Freedom House, that number had risen to 22. And the direction remains positive. In 2012, the reformist Augustin Ponyo was elected premier of the Democratic Republic of the Congo (DRC); on the final day of March 2015, Nigerian president Goodluck Jonathan made way for Muhammadu Buhari in the country's first democratic transition of power.



Muhammadu Buhari, Nigeria's new president

Tricky year ahead

Yet the data suggest that this is likely to be a tricky year for Sub-Saharan Africa. Individual states from Kenya to Ethiopia, and DRC to Sierra Leone, are on track to grow by upward of 6% this year, with some making it into double digits. Yet the underperformance of a few powerhouse states, notably Nigeria and South Africa, tipped by the International Monetary Fund to grow by 4.8% and 2% respectively in 2015, will remain a drag, with the IMF tipping regional economic output to inch down to 4.5% in 2015, from 5.8% last year. South Africa's ongoing electricity woes are another source of concern: a complete shutdown of the power grid has long threatened to cause an economic crisis in the region's most advanced economy.

Drags on the region also emanate from outside its borders - yet another sign of how far Sub-Saharan Africa has progressed. Before the millennium, a near-5% growth rate would have been considered a minor miracle. Two sources of pain and a further point of uncertainty stand out in particular in the near term. The first is oil prices; the second, China. In its latest Africa economics update, published on 15 April, London-based Capital Economics noted that economic growth in Nigeria would come in 2.5 percentage points lower than previously predicted due solely to the recent decline in oil prices.

Other commodity-rich nations, from Angola to Zambia, are being undermined by Beijing's attempts to restructure and diversify the export-heavy Chinese state. Notes Allan Dwyer, professor of finance at the Bissett School of Business at Calgary-based Mount Royal University: "African economies are particularly exposed to China, and despite a range of stimulus measure having been attempted by Chinese economic authorities, little traction has been gained as of yet."

Waiting on the Fed

Then there is the Federal Reserve's decision about whether and when to hike US interest rates. Tighter monetary policy would increase market yields and exert downward pressure on currencies, as well as slowing Chinese demand for the region's commodities, weakening its ability to earn foreign exchange. The Fed's timing "will play on global investors' minds", notes Angus Downie, head of economic research at Togo-based pan-African lender Ecobank. This, he adds, "is in addition to long-

"African economies are particularly exposed to China, and despite a range of stimulus measure having been attempted by Chinese economic authorities, little traction has been gained as of yet"

Allan Dwyer, Bissett School of Business, Mount Royal University

standing negative perceptions of the region, such as disease, corruption, instability and poor infrastructure".

China's slower-growing economy also hurts the region in indirect ways. In April 2014, Zambia raised $1 billion through its second dollar bond, widely seen as a play on the still-robust copper market. A similar issue in the current, tougher market would be tricky – although not impossible, given the hefty yield the Zambian government would offer (similar if not higher than the coupon of 8.625% handed to investors a year ago).

For now, hopes rest on a Chinese recovery, stemming from a new bout of stimulus in Beijing. "Everyone is trying to time a China recovery," notes Dwyer: "Energy sources and particularly resource demand from China played a major role in the African economic miracle of the past. When will that demand return? Much analysis is going into this question and the likely channels and endpoints for renewed Chinese expenditures in Africa." Adds Razia Khan, chief economist for Africa at Standard Chartered: "Both a China slowdown and the Fed tightening pose some risks to African markets."

Yet these are far from genuine setbacks. Slightly slower net growth is hardly cause for gloom. Capital Economics remains bullish about the region's prospects and tips economic output to rebound in 2016. In its first quarter 2015 Africa Economic Outlook, the consultancy points to the "huge consumer potential" of Nigeria's powerhouse economy, and the strides made in deregulating the power sector.

Lower oil prices (now running at around 60% of the previous high, recorded in June 2014) will benefit some nations, just as they hinder others. Energy-poor Kenya stands to benefit, allowing Nairobi to boost growth in 2015 and 2016 while narrowing its current account deficit. Côte d'Ivoire is another nation set to benefit from lower global energy prices, with GDP growth tipped by the IMF to remain north of 7% this year and next. Economic output is also set to rise sharply in Uganda and Tanzania.

"A number of African countries have embarked on strategies to diversify their economies away from the often dominant primary industries"

Irmgard Erasmus, NKC

Planning for the future

Others point to the region's increasing ability to plan for the future. Few economies still depend on a single, dominant source of income, notes Irmgard Erasmus, an economist at independent South Africa-based consultancy NKC. "A number of African countries," she says, "have embarked on strategies to diversify their respective economies away from the often dominant primary industries". This means a stronger consumer-facing economy in Nigeria, a South African government increasingly invested in eastern and central Sub-Saharan Africa, and the increasing tendency of commodities to be both mined and processed inside the region's borders.

Besides, growth isn't going anywhere. Investors sharp enough to overlook a few lean quarters in a handful of economies can see what Sub-Saharan Africa offers. Strong economic data, better governance and infrastructure, and more investable corporates and assets. Capital Economics tips regional compound annual growth to average 7% between 2014-2019, while growth, notes Jacob Kholi, partner and chief investment officer, Sub Saharan Africa at The Abraaj Group, a leading private equity group with investments across the region, "has almost quadrupled over the past decade, boosted by better governance, fiscal management, a natural resources boom and the development of a resilient middle class". How many other parts of the world can say that?

Ears to the ground

In a complex and rapidly changing region, good advice and good partners are vital

PUTTING YOUR MONEY to work in Sub-Saharan Africa has never been easier – or more complex. The region is awash with profit-making opportunities -- and ways to lose your shirt. Like China in the 1990s, Africa is on the cusp of an economic revolution. Risk is everywhere; understand it, learn its parameters and boundaries, and the rewards will come.

A good partner is everything. South African and Nigerian listed stocks may be in the portfolios of emerging market-focused funds, but investors remain judicious about what to buy in a region where most bourses lack depth and liquidity. Key advice for newcomers, as well as long-standing investors seeking to break into a new market, includes ensuring you invest for the long term, develop local talent, choose markets carefully and expect more than you bargained for.

Albert Essien, group CEO of pan-African lender Ecobank, notes that a knowledgeable and reliable banking partner "can certainly help provide a smoother landing when one is venturing into new territory. Companies looking to expand into the region would do well to avail themselves of the services of financial service providers like Ecobank. With a team of more than 60 experienced professionals, each with in-depth knowledge of local markets."

Albert Essien, Ecobank

Right asset, right price

Private equity groups are keen on investing in a region set to grow by a compound rate of 7% by 2020, yet equally determined to target the right asset in the right markets at the right price. None of that is easy in a region still struggling with intermittent infrastructure and communication, and often patchy levels of central and local governance. "Never forget," notes one global emerging market-focused investor, "that Sub-Saharan Africa is still a bit of a cowboy saloon. It's pot-luck. You might wind up sheriff. Then again you could end up being run out of town."

Essien says global investors "must be prepared to engage with African countries on a long-term basis and avoid abrupt changes in investment focus because of perceived instability in certain markets". He points to six key considerations that global investors must be prepared to contend with: understanding the local business culture, assessing which markets offer the best balance of risk and reward, finding and vetting appropriate local partners, understanding local market regulations, local environmental factors, and local levels of technological development. Investors, Ecobank economists say, can do no better than speak to Ecobank's client advisory, LocalKnowledgeAfrica (LKA), which draws on the bank's research analysts based in Lagos, Accra, Abidjan and Nairobi, as well as the bank's pan-African footprint.

Advisory outfits offer excellent regional data and investment advice, from emerging market investment bank Renaissance Capital to South African consultancy NKC. Buyout groups have access to data and quarterly reports co-authored by investment adviser Cambridge Associates and the Africa Private Equity & Venture Capital Association.

Building a network

Jacob Kholi, partner and chief investment officer for Sub-Saharan Africa at The Abraaj Group, a global buyout group with offices across the region, points to the importance of "the right partners on the ground in the right markets". Kholi, whose firm in April 2015 closed its third dedicated Sub-Saharan Africa buyout fund at $990 million, believes its success stems from having "on-the-ground access to clients and markets and opportunities. Our advantage is the network we've built up across the region."

His message is: invest with partners who know the region inside out, not 'suitcase bankers' who drop in every few months. Get to know the corporate you're investing in, or the team you're putting your money to work with. In Sub Saharan Africa, like anywhere, notes Kholi, "teams can be filled with great individuals, but they can also flop when they are slot together, so make sure you see them in action beforehand".

Jacques Nel, an economist at NKC, notes the increasing prevalence of joint ventures between regional and foreign corporates, pointing to the creation of Hareonsolar, a maker of solar cells co-owned by Chinese manufacturer Hareon Solar and Johannesburg-based Amed Energy.

Rob Hersov founded and chairs London-based private members club Invest Africa, whose 350-strong membership is packed with business leaders, private investors and family offices. "New members looking to learn can extract expertise and advice from members who have been operating in Africa, in some cases for more than 50 years," he says. "We equip our members with the right tools to make an informed investment decision."

Compelling investment

Africa's rich resources, natural and human, are luring capital, but investors will need to move fast

WHY INVEST IN Sub-Saharan Africa? Well, for one thing, yield. The quest for returns has, in these days of ultra-low interest rates, become almost mythical, like the hunt for an elusive elixir. Hence the clamour for African government bonds over the past few years.

Despite some lean quarters, a surprising number of regional sovereigns have in recent years issued debt securities, from Ghana and Kenya to Senegal and Côte d'Ivoire. Sub-Saharan African sovereigns printed paper in record volumes in 2014, issuing $9.17 billion of bonds, against $6.28 billion the previous year. That was partly pre-emptive, as governments sought to raise capital before the US Federal Reserve hiked interest rates.

But yield offered a further incentive, with global investors hungry for returns and finding them, notes Ravi Bhatia, director, sovereign and international public finance, at Standard & Poor's, in "high-growth" sovereigns. Typical of returns on offer were yields on Nigerian 10-year bonds, just shy of 14% on 30 April.

The region has also become a new focus for the Islamic finance and bonds market. In late April, Côte d'Ivoire became the latest regional sovereign to issue an Islamic finance bond, or sukuk, raising $490 million to pay for infrastructure projects. South Africa launched the continent's first Shariah-compliant US-dollar debt facility in September 2014, with Niger launching its own $258 million sukuk in February 2015. Two months later, the National Bank of Ethiopia announced plans to launch a secondary bond market in 2016.

IPOs gain depth and diversity

Nor have the equity markets been quiet. More than $1.3 billion was raised in 2014 through regional initial public offerings, according to Dealogic, up from $471 million in 2013 and $390 million in 2012. The nature of the IPOs also highlighted the increasing range, depth and diversity of equity capital markets: the list included the $538 million dual listing in London and Lagos of Nigerian oil exploration firm Seplat, and the $100 million IPO of South African FMCG specialist Rhodes Food Group. Smaller listings peppered usually illiquid stock markets in Botswana, Gabon and Uganda.

All these sales happen for a simple reason: Sub-Saharan Africa offers the sort of reward found only in a few other pockets of the emerging world. To some, the central reason to invest is people. The region is growing both more crowded and more wealthy: the UN tips its working-age population to exceed that of the rest of the world combined by 2035, with two-fifths of the global workforce. Economists talk of Africa becoming the next natural home for manufacturing and outsourcing as production moves away from Asia, given improving levels of education, a solid language skill-set and lower labour costs.

"Africa's human resources are particularly a big plus for local and foreign direct investors," notes Albert Essien, group CEO of Ecobank, which has offices in 36 regional countries. "Africa has the highest fertility rate in the world…and by the end of this century there will be 4.2 billion Africans, or half of the world's under-18 population. This presents numerous opportunities for investors to provide goods and services to this booming population, over half of which is now urbanised and has rising disposable income."

This means more money and more wealth to spread around. "Consumer demand for products is likely to rise, while demand for luxury goods is rising and there is a scope for large economies of scale," notes Angus Downie, head of economic research at Ecobank. "The region has not yet matured, which suggests that there are a lot of untapped resources and opportunities. A number of opportunities could lie in the road, transport and communication sectors, especially given the growing drive by African governments to issue Eurobonds to boost infrastructure in their countries."

Opportunities are legion

To Irmgard Erasmus, an economist at independent South Africa-based consultancy NKC, key rationales for investor interest are rising productivity and the region's ability to spend capital wisely on infrastructure. Erasmus points to the "tantalizing drawcards of high economic growth, a favourable demographic dividend and vast natural resources". The opportunities for business, and private equity investment, "are legion, especially against a global backdrop of sluggish economic recovery". The latest data from Euromoney Country Risk shows financial, fiscal, economic and political security rising in virtually every country across the region, bar cases like Zimbabwe. Finally, there's natural resources. Much of the reason for the frenzied activity surrounding euro- or dollar-denominated sovereign bonds, or chunky corporate IPOs, circles back to rising demand for hard (metals, energy) and soft (wheat, fruits, soybeans) commodities.

But the main reason to invest, says Edward George, head of group research at Ecobank, remains the region's "resources, both mineral and human. The continent sits on a large share of the world's mineral resources, most of which are unexploited, and is a leading producer of [agricultural] cash crops for the global market".

This, he notes, presents virtually endless possibilities for investors looking to provide goods and services to an increasingly urbanized and wealthy population. "Whether developing agribusiness value chains, or offering mobile banking services," or everything from motorbikes to new homes, "there is a wealth of investment opportunities, and relatively little competition," George notes. "But it won't remain this way for long: investors who continue to profess a desire to invest in Africa but do nothing about it could miss the boat."

Sights on the growth stars

Even as continent-wide growth dips, individual states are set for spectacular performance

SUB-SAHARAN AFRICA is at a crossroads. Capital Economics expects regional growth to dip to a 16-year low in 2015, largely due to flagging commodity and energy prices. Two key oil exporters, Nigeria and Angola, the region's largest and third-largest economies, will struggle most, the London-based economic consultancy says.

Yet this still leaves the region in a far better state, in growth potential as well as a sense of hope and momentum, than almost anywhere else. China is slowing; the eurozone remains in turnaround mode; even the US is struggling to make a critical transition to tighter monetary policy. By contrast, the economy of Sub-Saharan Africa is still projected by the IMF to expand by 4.5% this year, against 5.8% in 2014.

Some countries will benefit more than others from the mixed global and regional economic picture. Kenya is singled out by the IMF as a shining example of optimism, good planning and fortitude in the face of attacks by militant groups. The economy expanded by 5.3% last year, and is set to grow by 6.9% this year, the government in Nairobi said, thanks to higher exports of fresh produce and textiles, and rising investment in construction and key road and rail projects.

On the frontier

Over the next year or two, many growth markets are likely to be frontier states or smaller emerging markets, experts say. Cobus de Hart, an economist at NKC, highlights the potential across the East African Community, notably Rwanda, Tanzania, Uganda and Kenya, along with Ethiopia and coming energy power Mozambique. "All are expected to register solid growth rates this year," he says. "Over the long term, the demographic dividend still represents a key advantage." This stems, he adds, from a growing middle class and the region's potential as a future manufacturing and industrial hub, as rising salaries in Southeast Asia force companies to look to economies with lower input costs.

"More and more African countries are desirous of bolstering their manufacturing base and moving away from the old paradigm of essentially being mere exporters of raw materials," says Albert Essien. "This is Africa's time to produce…and the opportunity for investing in manufacturing and in the transformative sector in Africa is huge. I cannot emphasise this enough."

Others highlight the potential in specific states. Uganda's focus on improving and investing in infrastructure is paying dividends, the World Bank says, with growth expected to hit 5.6% this year, from 4.5% in 2014. Says Vladimir Sklyar, head of Russian research at Renaissance Capital, which has offices and assets across the region: "Uganda has fixed its power and transmission grid and allowed the market to set tariffs. Private players are piling into the market, with $100 million invested in the power and transmission sector each year. It's been nothing short of transformational, with fewer blackouts and brownouts. It's a classic example of how to get your system to work properly."

Emerging power houses

Some nations can expect super-high rates of economic growth this year and next. "Sub-Saharan Africa will continue to have some of the world's fastest growing economies in 2015, despite the recent collapse in commodity prices," says Ecobank group CEO Essien. "We forecast a strong rebound in South Sudan [tipped to grow by 19% this year] and Sierra Leone [10%], both of which are emerging from crises." Essien also points to "continuing strong growth" in the Democratic Republic of the Congo (DRC), Ethiopia, Mozambique, and Côte d'Ivoire, economies projected to grow by upward of 8% this year. Essien adds: Despite rising political and security risks across SSA, and the weakness of prices for the region's commodity exports, we still expect the region's compound annual growth rate between 2014-2019 to total 7%, only marginally below Asia and the BRICs nations, and well above the OECD average."

The DRC in particular will remain a fascinating story for years to come, one vital to Sub-Saharan Africa's prospects. Get it right, investors, politicians and business leaders have long said, and many of its other long-standing problems will begin to ebb, notably overland transport issues and a deficit of intra-regional trade. Angus Downie, head of economic research at Ecobank, flags up the DRC's potential, pointing to a "strong rise in mining activity and increased agricultural output", with economic activity set to expand by around 9% this year. In a March 2015 report, Ecobank pointed to eight nations with potential to "significantly transform" the region, thanks to high foreign exchange reserves, low inflation and debt, improving infrastructure and the right demographics. These were Nigeria, Kenya, Côte d'Ivoire, Mozambique, Angola, Rwanda, Tanzania and Ethiopia. Ethiopia is seen as a beacon of hope by most analysts, with Dennis Dykes, chief economist at South African lender Nedbank, flagging up the success of its reform-minded and "proactive" government.

Even some of the concern about Africa's largest economy, may be overdone. Nigeria faces challenges, not least lower oil prices and the threat of militancy. But cause for cheer came in the March 2015 general election, with the first peaceful presidential transfer of power, from Goodluck Jonathan to Muhammadu Buhari, in the country's history. "Nigeria now looks a lot more optimistic," says Razia Khan, chief economist for Africa at Standard Chartered. "A new government is expected which will accelerate the pace of reform. In terms of investor interest in Africa, we see Nigeria stealing the show. It has scale, it promises transformation. Despite a still-difficult backdrop because of weak oil prices, much is expected in Nigeria."

Keys to the cities

Savvy investors are zeroing in on the opportunities in fast-growing African cities

AS SUB-SAHARAN Africa's economy grows, it develops and splinters. Once there were a few, genuinely powerful and mostly South African lenders, including FirstRand Bank, Nedbank and Investec Bank. Others were bought into or taken over, with Absa becoming Barclays Africa and China's ICBC securing a stake in Standard Bank. Then came the rise of listed Nigerian lenders, from GTBank to Zenith Bank to Access Bank, and the occasional pan-African bank, notably Togo-based Ecobank. This created more investable financial services options for emerging market-focused regional and global funds.

Other sectors have, over the past decade, become more powerful and mature. Food stores used to be local affairs, at best. How fast things change. Kenyan-headquartered supermarket chains Nakumatt and Tuskys now own stores in neighbouring Uganda, Tanzania and Rwanda. South Africa's ShopRite operates in 17 Sub-Saharan African countries. Global peers Wal-Mart and Carrefour are pushing hard into the region. Global consultancy McKinsey tips regional sales of consumer goods and food to hit $185 million annually by 2020.

Some corporates, investors and financial services specialists are looking to gain regional breadth and depth. Others prefer to focus on a few key markets. Some are searching for a highly specific form of return. This is yet another sign of how quickly the region is maturing.

Expanding cities

Jacob Kholi, partner and chief investment officer, Sub Saharan Africa, at The Abraaj Group, a leading global buyout firm, focuses on four key markets (Kenya, Ghana, Nigeria and South Africa) while delving into fast-growing corporates and assets in rising frontier states. He further sharpens Abraaj's focus by exploring investable assets geared toward specific cities, or a country's urban citizens. "Many African cities are growing at double the rates of the sovereign itself," he says. "By 2025, more than 80 cities in the region will have more than a million people apiece, comprising around 60% of regional GDP. You cannot afford to overlook that development."

South Africa's ShopRite operates in 17 Sub-Saharan African countries

Abraaj looks for investable assets around, say, the Ghanaian capital of Accra, or in the wealthier first- and second-tier Nigerian cities south of Abuja, in the Niger delta. The benefits, in addition to access to a larger, wealthier clientele, include better infrastructure. One early investment in Ghana was in a pioneering bottled water firm, Voltic. Abraaj built on its name strength in Accra, before taking it deep into smaller cities and towns, then testing the brand in rural areas.

Core assets

This malleable approach to strategy is playing out around the region. Banks and corporates focus on core products and markets, rather than the entire region. Over time, their operations began to coalesce, as poorer municipalities became wealthier. That is clearly happening in Sub Saharan Africa, home to a small core of powerhouse economies, along with a far larger number of frontier states offering more risk as well as potentially far higher reward. Gaining access to those markets, and unlisted but valuable assets and corporates within them, may be tough. But then, nothing worth doing ever comes easy.

For Robert Hersov, founder and chairman of London-based investment and advisory outfit Invest Africa, Nigeria's true untapped potential lies less in the cities already lodged in the minds of casually informed investors (Abuja, Lagos, Ibadan) than in the northern regions under intermittent threat from militant group Boko Haram. He points to Kano (population 3.6 million) and Kaduna (1.7 million), the latter a medium-sized province whose governor, Nasir Ahmad el-Rufai, is a Harvard economics graduate with a reputation as a reformist and graft-buster. "If Boko Haram is pushed back, the whole north could take off," Hersov says. "Kano state alone has a population of 10 million and rising. Its economy, at $17 billion, is bigger than Botswana's. The potential for manufacturing, agriculture and retail investment [in these areas] is huge."

Foreign investors, Hersov adds, "have to start thinking in terms of specific African countries, cities and opportunities. What are the prospects of Mkushi District in Zambia? More sophisticated, nuanced, explanations of Sub-Saharan Africa's potential are seriously lacking. We are talking about 54 countries here. Each with its own unique economy. Each with different cultural norms, languages and business practices. Investor naivety and generalization is a major fall point."

Sub-Saharan Africa is changing, offering specific, high-growth business opportunities, from telecommunications in Tanzania and IT services in Rwanda to sustainable quarrying in Gabon and lingerie production in Kenya. The investment possibilities are endless, as well as endlessly fascinating.

Bring on the new champions

Successful, growing corporates are building a reputation outside Africa's major markets

SUB-SAHARAN AFRICA'S corporates are coming of age. The region has long been a repository of well-run enterprises with ambitions that stretch across the region and beyond. But improving infrastructure, better access to capital and rising wealth permeating through to the middle classes are turning leading firms into bona-fide multinationals and clever start-ups into the next blue-chips. The result is good for everyone, not least the army of regional and foreign investors looking to invest in and profit from the best corporates the region has to offer.

Nigeria and South Africa still dominate, boasting 45 of the region's 50 largest corporates by market capitalization, according to data from Bloomberg. At the head of the queue sit the usual suspects, from Nigeria's Dangote Group and oil and gas firm Century Group to South African giants such as Standard Bank, carrier MTN and energy-to-chemicals group Sasol.

But look elsewhere and a host of interesting and aspiring corporates spring forth. In Kenya, Safaricom, inventor of the ground-breaking mobile banking service M-PESA, stands out, as does Nairobi-listed East African Breweries. Tanzania's METL has fast become one of the leading conglomerates in eastern Africa, while energy-to-services group Taleveras has used its flourishing home market in Ghana as a springboard to francophone western Africa. Even the skies are filled with homegrown success stories, from budget carrier Fastjet to the sleek hulls of long-haul expert Ethiopian Airlines.

African champions

Edward George, head of group research at Ecobank, points to the emergence of "a new generation of African champions", which is challenging the status quo. He points to rising innovation and ambition in the financial services space, highlighting his own, Togo-headquartered employer, which now boasts a presence in 34 regional states, as well as a host of Nigerian lenders, including GTBank, UBA and Access Bank.

South Africa's powerhouse is also spawning a new generation of firms focused on regional domination, from supermarket chain ShopRite to consumer goods specialist Tiger Brands, both now expanding into frontier markets in Africa. Then there are the numerous energy and oil firms that have exploded on to the scene, benefiting from liberalization and deregulation in key economies. Standout examples here include a quartet of Nigerian corporates: power generator Oando, oil producer Seplat, and a pair of energy explorers, Orion Oil and South Atlantic Petroleum.

The region's increasing economic clout is also pushing corporates and investors to focus on the industries that will drive and define its financial success over the coming years and decades. Angus Downie, head of economic research at Ecobank, points to oil and gas, despite a recent sharp fall in prices, as a sector with enormous long-term prospects.

Nairobi-listed East African Breweries

According to data from the UN Environment Programme, investors pumped $1.3 billion into renewable energy projects in Kenya in 2014, more than the combined invested total over the previous three years. Much of the funding was channelled into fast-growing local firms such as lantern maker D.light and solar home-lighting firm M-KOPA. South Africa took its share of the plaudits, with $5.5 billion going into renewable projects last year, on a par with the total invested in larger economies such as India ($7.4 billion) and Brazil ($7.6 billion).

Services please

But the key industry will remain the sprawling services sector, Downie adds, with financial services in particular "gaining in importance continent-wide given low levels of banking penetration. Trade services will also grow strongly due to import dependency and continued growth in disposable income. Telecom service providers are the other main key area of growth," he added, driven by a continued rise in demand for mobile banking from both retail and corporate customers.

Indeed, the future of the banking sector looks rosier here than perhaps anywhere else on the planet. M-PESA changed the way banking was done here, by making it movable and simple, and allowing credit and capital to cross national boundaries at ease. At a stroke, this technology has turned borders porous and boosted revenues and profits at corporates of all sizes, from multinationals down to the smallest enterprise. According to data from the World Bank Group, more than 12% of adults across the region boast access to a mobile money account, compared to 2% of adults worldwide, helping boost trade, innovation and growth across the region.

Feeding a hungry market

With capital markets still in their infancy, private equity is the route taken by many investors lured by African opportunities

PRIVATE EQUITY IS booming in Sub-Saharan Africa. Buyout funds once gave the region a wide berth, fearing low levels of corporate governance, scarce management skills and complications involved in making a clean exit, through an asset sale or initial public offering.

All that has changed. An industry once long on hope and short on deals now abounds in activity. Over the past year, US-based KKR has invested $200 million in Afriflora, the largest player in Ethiopia's booming floriculture sector. This April, Aliko Dangote, Africa's richest man, announced plans to build a $2.5 billion gas pipeline from the Niger River delta region to Nigeria's commercial hub of Lagos, with a portion of the capital to be provided by Carlyle Group and Blackstone, the world's largest buyout groups.

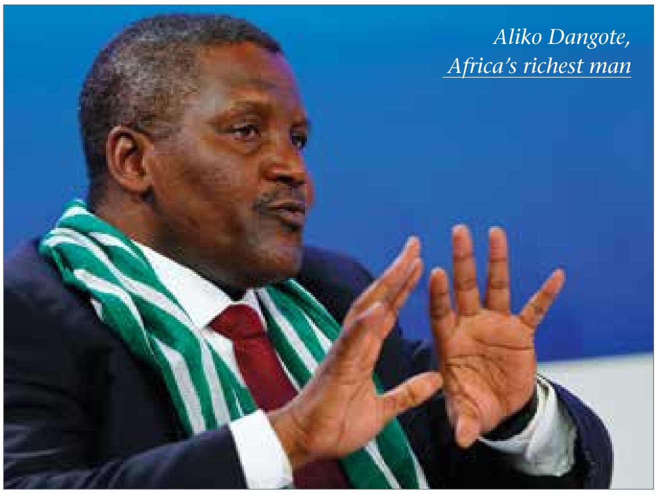
Funds have been opened and quickly closed after easily hitting capital-raising targets. Already this year, London-based, Africa-focused Development Partners has announced the final close of a buyout fund capped at $725 million. In April, The Abraaj Group closed its third dedicated Sub-Saharan Africa private equity fund at $990 million. Leading asset manager STANLIB Africa launched a $105 million fund focusing on regional infrastructure projects.

In the seven years to end-2014, 983 buyout deals were closed in the region totalling $34.5 billion, according to data from African Private Equity and Venture Capital Association. More than $8.1 billion was invested in regional corporates and assets in 2014, the second-highest total on record after the pre-financial crisis year of 2007. Just as notable is the diverse range of the funding. Two-thirds of the capital comprising Abraaj's new fund was sourced from European and North American institutional investors. Notable deals over the past year include London-based Permira's deal in December 2014 to buy a 100% stake in data centre services provider Teraco Data Environments.

Attractive strategy

What has turned Sub-Saharan Africa into a financial mother lode for so many canny buyout groups? One answer lies in something the region still lacks: deep capital markets. Other than South Africa and Nigeria, and to a lesser extent Kenya and Mauritius, there are very few genuinely liquid stock exchanges. "The lack of efficient stock exchanges across the region increases the attractiveness of private equity as an investment strategy," says Irmgard Erasmus, an economist at independent South Africa-based consultancy NKC.

For investors who want to hold portfolios that reflect the sectoral composition of African economies, tracking all-share indices or indices of the most liquid listed equities can be an unsatisfactory option. Some sectors are over-represented



Aliko Dangote, Africa's richest man

(finance, energy, telecoms and mining), while others such as agribusiness and retail are barely represented at all. This discrepancy will surely be rectified over the decades to come. But for now, notes Erasmus, it merely "increases the relative attractiveness of private equity deals across the region. In turn, private equity investments to access the fast-growing consumer retail sector continue to underpin a number of African deals."

Tipping point

To others, the region's sudden allure is in large part due to rising education levels and managerial skills, stronger economic and political systems, and the desire of foreign-educated Africans to return home. Vladimir Sklyar, head of Russian research at Renaissance Capital, a Moscow-based investment bank with assets across the region, says Sub-Saharan Africa has reached a tipping point. "A few years ago, the IMF kept trying to drive through reforms but they wouldn't work, as the region lacked the right skills base. All of that has changed. I'm amazed by how many truly skilled white-collar professionals I now see on the ground. People see presidents and prime ministers, ruling predominantly democratic countries and regions, and that gives them hope. They see how they can benefit: that they can get their share of economic growth, and that wealth will trickle into their pockets."

The same is true for industry heavyweights. Jacob Kholi, partner and chief investment officer, Sub-Saharan Africa, at Abraaj, has more than 10 years' experience in the industry. When he began, private equity was still in its infancy. Now, he says, it offers phenomenal potential. Abraaj has opted for a loose hub-and-spoke model, focusing on core markets including Nigeria, Ghana and South Africa, while delving further into rising emerging markets and frontier states, from

Cote d'Ivoire to Rwanda, and Ethiopia to the Democratic Republic of the Congo. All are markets where Abraaj, notes Kholi, boasts a "strong and growing network of relationships" across the region. "The key to success is to know your markets and your people." In the words of former US secretary of state Dean Acheson, you need to be 'present at the creation' of key corporates and industries.

"It makes a big difference to be on the ground in key markets," Kholi adds. "You can only pick up intelligence by being 'there', being local, while being able to offer companies the breadth and depth of your experience." Here, Abraaj's long history in the region surely helps. "The beauty of our platform is that we have local presence and global standards. Our partners can call on us any time of day or night – our doors are always open. Being physically present drives our philosophy. You wouldn't get this with a partner who flies in for a week or so every other month." Abraaj investments around the region range from Kenyan steel (Athi River Steel) and Nigerian oil services (AOS Orwell) to Ghanaian ground handling (Aviance) and Senegalese business services (Matforce).

Prices on the rise

As the industry grows and matures, both buyout groups and the companies they seek to target are growing more demanding and selective. Auction prices are on the rise, a reflection both of the region's long-term potential, and the increasing likelihood of being able to exit an investment over the long term. And as economies mature, regulators are becoming increasingly active, a boon for investors keen to know they have sovereign support when entering, holding, and exiting assets.

It can still be a tough place to do business. Sub-Saharan Africa is not, say, Australia or Canada, developed markets offering high levels of corporate support. Many markets remain underdeveloped, even wild, offering high levels of both risk and reward.

To Jacques Nel, an economist at NKC, investors should remain both cautious and judicious when spotting a juicy target. Some sectors remain out of bounds to foreign investors, or restricted in terms of the stake a non-domestic investor or group of investors can hold. He advises investors to look to collaborate with reliable domestic investors, "particularly in countries with less developed private sectors", while noting that many regional governments "have shown an increased willingness to collaborate in public-private partnerships, particularly in sectors such as infrastructure".

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Vladimir Sklyar, Renaissance Capital

Golden opportunities

Even the recent slowdown in energy and commodity prices offer opportunities to the eagle-eyed. Global and regional borrowing costs remain low, and the winding down of a long commodity supercycle will open up the prospect of distressed investments and leverage buy-outs of commodity producers. "The energy price slump provides opportunity for the deployment of capital and acquisition at attractive valuations - a golden opportunity for private equity-led deals in the energy and mining sectors," notes NKC's Erasmus. On the flip side, buyout firms are also targeting retail- and export-focused assets in eastern Africa, notably energy-scarce economies such as Kenya, Uganda and Tanzania.

This should be the beginning of a golden era for private equity in Sub-Saharan Africa. And that should be good for everyone. The continent, notes Robert Hersov, founder and chairman of investment and advisory outfit Invest Africa, still has a "serious shortfall in capital. It needs investment. Thousands of pioneers and entrepreneurs are on the cusp of success, if only they can find a backer. The market is hungry. Moderate investment can be hugely rewarding." Private equity groups, he adds, "are waking up to the prospects of Africa".