



Media release: Investments in Africa looking increasingly attractive with a long –term view

20 April 2010 - Investment opportunities across the African continent are looking increasingly attractive across many asset classes including equities, infrastructure and property for those able to take a long-term view. Many global and South African institutional investors are already benefiting from this improving trend in terms of both strong returns and falling risk, and retail investors with a high risk tolerance may also want to consider Africa as a possible source of diversification and higher returns (along with higher risk) for their portfolios, according to Old Mutual Investment Group (SA) (OMIGSA).

Speaking at a presentation on Tuesday, Godwin Sepeng, head of the Long Term Equity boutique at OMIGSA, pointed out that although China, India, Brazil and other Asian countries seem to be attracting the most attention from global investors due to their rapid growth, African countries also deserve to be considered for many different reasons, including: their stronger GDP growth than the global average, falling inflation, improved ease of doing business, rising disposable income per capita and emerging strong middle classes in many countries. In fact, population growth is expected to give Africa a collective population of nearly 1.28 billion by 2015 (according to the IMF), comparable to the populations of China or India.

“On top of this, African governments’ external debt burdens have been reduced dramatically in recent years due to debt forgiveness through various multilateral initiatives, and we’ve seen improving foreign direct investment (FDI) flows into the continent, particularly attracted by the large resource deposits,” added Sepeng. “South Africa is the largest source of investment into Africa, thanks to expansion by many of our mining, financial and retail companies, who recognise the growth potential of the various markets.”

Looking at equity markets around the continent, Sepeng noted that there were now over 500 listed companies across 15 different stock exchanges, making for a significant variety of choice for equity investors. Market capitalisations and trading volumes had improved markedly since 2002 (apart from the 2009 crash), with particularly good growth seen in Egypt, Nigeria, Morocco and Tunisia.

“It’s important to note that most African stock markets – with the exceptions of Namibia and Egypt - have a low correlation with the Johannesburg Securities Exchange, making this an additional source of diversification for South African equity investors,” said Sepeng. “This includes markets like Ghana, Morocco, Tunisia and Nigeria, and even Mauritius.”

Sectors that are likely to experience above-average growth over the coming years, and therefore represent good investment cases, Sepeng believes, include consumer staples, telecommunications, infrastructure, brewing, financial services, and mining and related services. “These sectors have strong long-term prospects to outperform the broader market in most countries, so for example, banks, telecom companies, miners, cement producers and certain retailers, would make the most compelling portfolio investments,” he says. “Certainly these are the main candidates for inclusion in our new Pan Africa and African Frontiers funds.”

However, he cautions, tradability of the shares remains a risk, as do other factors. “Would-be investors in African equities have to consider the extra risks involved, which can vary widely by country, but include lack of transparency in corporate governance, shifting government policies and low credit ratings, among others. Our approach to

mitigating risk includes focusing only on listed companies with the largest market capitalisation (US\$200m or more) - which is around 200 companies in total- with a high free float and widely traded shares, as well as high standards of corporate governance. We also place strict limits on exposure to individual companies, sectors and countries, to ensure a highly diversified portfolio. Finally, our focus is on long-term capital growth, and investors must also be prepared to take at least a five-year view on their African investments.”

An even longer-term investment horizon is required for investors in African infrastructure. This asset class has long been limited mainly to international development and financial institutions, but is becoming increasingly attractive for a broader range of investors, even individuals. According to Tom Plaistowe, portfolio manager for several African and South African infrastructure funds at OMIGSA, experience has shown that these infrastructure investments have provided both strong commercial returns and powerful developmental benefits for their respective regions.

“Our four funds with assets under management totalling R5.9bn are invested in a range of projects, including the only privately owned toll road in Nigeria, a railway from Beitbridge to the DRC (including the Zambian rail network), Bloemfontein prison, a power station and three toll roads in South Africa,” he explained. “Each of the toll roads created over 4,000 direct jobs, over 500 permanent jobs and spent more than R200m on small and medium enterprises. The Zambian railway has significantly improved the tonnage it moves. on top of this, returns on these funds have averaged just under 20% per year (compounded) in the more than 10 years we have been managing them.

“In fact, the investors in one of our funds have been repaid all of the R750m in capital originally invested, and still sit with assets valued at over R2.0bn, yielding approximately 10% per year,” he added. “This shows just how attractive these types of investments can be. However, investors have to recognise that the investments are made with a very long investment horizon – up to 10 years or more - in illiquid assets. For investors whose requirements do fit this timeframe, African infrastructure can be a sound investment option. And we are hoping to develop an investment framework that would be appropriate for retail investors, giving them exposure to a broad range of projects across the continent. We expect this asset class to become increasingly popular in future,” concluded Plaistowe.

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