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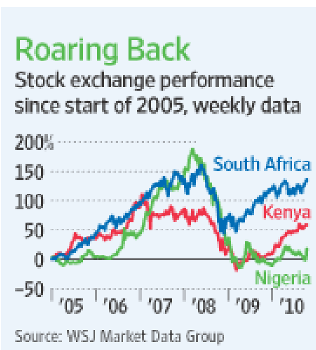
Catching Africa's Investment Bug Is Proving Contagious

By MATTHEW CURTIN

Investors have caught the Africa bug.

The continent already has seen a record $54 billion in mergers and acquisitions this year, including Wal-Mart Stores' offer of more than $4 billion for South Africa's Massmart Holdings last week. A raft of Africa-focused funds also have been launched. The Renaissance Group is seeking $1.5 billion, while 8 Miles, a fund fronted by Bob Geldof, aims to raise another $750 million. For once, this enthusiasm seems warranted.



Growth is one reason. The continent's gross domestic product should rise 4.6% this year, up from a recession-beating 2.5% in 2009. The industrialization of India and China should help underpin high commodity prices, still Africa's principal resource, and both countries are investing heavily in the continent. Africa's population could double to 1.8 billion by 2050. Poverty, and in some places crime, remains chronic. But the opportunities are huge: The consumer-goods, agriculture, resources and infrastructure sectors may generate $2.6 trillion in revenue by 2020 compared with $1 trillion today, according to McKinsey.

Africa also offers high returns on investment compared with other developing countries. Limited competition means margins are fat. For example, only four banks have a substantial presence across the continent: Barclays, Citigroup, South Africa's Standard Bank and Standard Chartered. New competitors are being lured in. HSBC Holdings is in talks to buy South Africa's Nedbank Group. Nigeria's Guaranty Trust Bank and Zenith Bank may resume a crisis-interrupted push into neighboring markets. In the retail sector, Wal-Mart has stolen a march over Carrefour and Tesco, rivals largely absent from Africa.

Valuations are cheap. African consumer businesses are valued at less than 10 times forward earnings compared with more than 20 times in other emerging markets, according to Renaissance.

The improved economic outlook also could spur growth in often embryonic public markets as African-based companies seek more local equity and debt financing. That would provide more opportunities for investment funds to gain direct exposure to Africa's development as well as easier exits for private-equity investors. As it is, Actis, a private-equity firm with $1.5 billion in funds under management in 17 African countries, managed to float 100% shares of Nigerian telecom company Starcomms locally in 2008.

Major constraints exist all the same: volatile exchange rates, corruption, poverty and political instability in key countries like Egypt, Nigeria and South Africa. Small economies—Massmart's valuation is bigger than

Zimbabwe's GDP of $3.5 billion—could be swamped by capital inflows. Managing them and controlling inflation are big challenges for Africa's young democracies.

Africa suffers from an acute skills shortage even in relatively developed countries like South Africa. But there is a real chance Afro-pessimism is finally giving way to Afro-optimism.

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