February 2019

We have a particular focus on and experience in private equity investment in Africa and set out below our general high-level outlook for investment into Africa in 2019/2020.

Africa is comprised of a range of distinct investment destinations, with each region and country having its own appeals and challenges, created through differing cultures, business practices, as well as political and economic circumstances. However, African private equity activity has remained steady over the past seven years, with investors having confidence in the long-term attractiveness of Africa, especially when compared with developed markets. According to the African Private Equity and Venture Capital Association, 76% of surveyed investors plan to increase or maintain their allocation to African private equity over the next three years.

The size of private equity investments in Southern Africa more than doubled in and from 2017, and private equity has consistently outperformed listed equity. While South Africa was the traditional powerhouse of the African private equity industry, Nigeria and Kenya have recently overtaken it in attracting the most attention from private equity investments in Africa. The political and economic uncertainties of 2017 caused some concern in the South African market, however, stability through 2018 saw investor confidence pick up.

Challenges and impacting factors

Political risk management is always a factor in driving portfolio trends, with elections, currency and commodity price volatility being some of the most significantly impacting macro factors. In 2019, South Africa specifically may see some temporary stalling in investment due to the upcoming presidential elections. Additionally, environmental, social and governance (ESG) factors are increasingly becoming important considerations for and drivers in investment decisions.

Some of the usual culprits that cause investors to shy away from investing include corruption and weak governance, as well as limited exit opportunities, which continue to hamper investor perceptions of and confidence in the continent.

Sourcing quality, competitive deals is frequently a challenge for private equity firms in Africa, as intermediaries on which they depend often have confined geographic and social networks, and tend to generalise, lacking the necessary sector knowledge to more effectively and suitably
match investors with deals. Another challenge to private equity investment into Africa is that there is still a large gap in reliable data pertaining to private companies. This makes it difficult to achieve reliable valuations and peer comparisons, resulting in African companies being compared to international peers, which in turn leads to mispricing.

In order to maximise their return on investment, fund managers are required to adopt a more hands-on approach to managing investments. This requires time and human capital with the necessary skillset to engage more actively with and nurture portfolio companies. This often proves challenging where portfolio companies remain majority family-owned and controlled, with significant owner-resistance to perceived investor interference with the operation of the business.

Local regulatory frameworks often create barriers to investment and place burdensome restrictions on private equity operations, including limited access to local capital such as domestic pension funds, exchange controls, local content requirements and ownership restrictions. More developed frameworks in South Africa and Nigeria are driving change, but progress is slow.

On a positive note, intra-African trade is set to increase interest in Africa. Looking to generate 22 African nations to support the initiative, the African Continental Free Trade Agreement aims to stimulate and facilitate intra-African trade, which should fuel investor confidence, particularly in the ever-popular consumer goods sector. Additionally, Africa’s middle class is growing, with rising disposable incomes, stimulating investment into telecoms, consumer and financial services.

**Sectors**

Consumer driven industries (such as financial services and consumer goods), health care and education remain steady and stable investment bets. The agricultural sector is set to hold strong as agro-processing increases and global food demand spikes.

Lack of efficient infrastructure across Africa impacts significantly on per capita growth rate and places significant strain on human development. The African Development Bank’s most recent estimation of infrastructure needs is between US$130 and US$170 billion annually, a need which is not matched by the continent’s capital. This creates a substantive opportunity for private equity and infrastructure funds support, which is anticipated to continue to grow over the next few years.

Technology has developed as the highest-interest emerging sector for private equity investment. Historically, this sector in Africa struggled to access funding and capital due to the lack of understanding and backing of the industry and its potential impact on the development of other industries and the economy as a whole. Another regular challenge for the industry is the poor connectivity that, in spite of improvements, still plagues the continent. However, tech-enabling solutions in the consumer discretionary spending space, as well as technology-driven financial solutions are hot topics and on trend for 2019, particularly across Africa which is
ripe for the industry to explode.

Technological advancements and solutions have a substantial impact on the development and growth of other industries and, as this model is repeatedly proven, then investment in tech companies becomes an easier decision to justify. Kenya, Malawi and Rwanda are already deploying technology in the agricultural sector, including aerial imagery from drones or satellites, weather forecasts and soil sensors, all of which are making it easier for farmers to manage their crops in real time, while financial solutions are connecting small holder farmers with credit, financial institutions and greater market access. Funding in tech start-ups surged by 51% (amounting to US$195 million) in 2017, and continues to grow exponentially, with development capital set to carry the sector to new heights.

Additional trends
In 2017, the most popular disposals, in value terms, were sales to other private equity firms or financial institutions, and the most popular method of disposal were sales to management. Sponsor exits by way of initial public offering have remained stable over the past few years, amounting to a total of 16% of all IPOs in Africa between 2010 and 2017, with an increase from three in 2016 to four in 2017. This trend is anticipated to continue into 2019, particularly with the growth and maturing of Africa's stock markets, including the Nigerian Stock Exchange and the Kenyan Capital Markets Authority.

As China's domestic growth began to surge at the end of the last century, demand for natural resources and job creation forced China to look for markets abroad, with Africa being an ideal partner, with its abundance of commodities and need for infrastructure development. Chinese investment into infrastructure projects is continuing to increase, with investment speculated to reach US$100 billion by 2020, equal to 4% of African GDP. This would go a long way to boosting economic growth and addressing needs and deficits, specifically in the energy and transport sectors.

Interestingly, in 2019 it is anticipated that more private equity firms will participate in later stage million-dollar venture capital deals, as more businesses look to scale-up after proving the viability of their business models. Clearly, we will need to look out for market intelligence and deal reporting to see if this anticipated trend comes to fruition.

Investors
China leads in active engagement with Africa, with seven heads-of-state summits under its belt to date. However, Chinese support has mainly taken the form of loans to governments and state-owned entities (in excess of US$86 billion between 2000 and 2014, and growing), with foreign direct investment (FDI) making up only 5% of total global investment in Africa. Regardless, two-way trade has grown exponentially, and now exceeds US$200 billion. China has also established more than 10 000 firms across Africa, becoming the most integrated investor into the continent.
Japan has and continues to show great interest in South Africa in particular, as it sees it as gateway into the rest of Africa, with many investors (predominantly from the vehicle manufacturing sector) establishing offices in South Africa. Japan has also opened dialogues and is working closer with East Africa (including Rwanda), as well as Ethiopia, however Kenya, Nigeria and South Africa maintain their primary destination spots with this investment giant.

The European Union (EU) has sought to strengthen its collaboration with Africa, with the fifth EU-Africa Summit having taken place in Abidjan in 2017. Two-way trade exceeds US$300 billion, and the EU has pledged to mobilise more than €44 billion in sustainable investment by 2020. Furthermore, the EU is formalising its support of the continent, and firming up its preferential access to markets across the region, with the Economic Partnership Agreements, already signed with over 40 nations in sub-Saharan Africa. Germany and the Netherlands are emerging as the fastest growing investors in Africa, increasing their project counts on the continent from 2017, while the United Kingdom remains solid and dependable in its commitment to FDIs, second only to the United States.

While the U.S. is the largest direct investor in Africa, with US$54 billion in FDIs, it is trailing behind in its collaborative efforts, being more selective of the countries with which it engages (primarily South Africa, Lesotho, Kenya, Mauritius and Ethiopia), two-way trade at below US$39 billion, and only having ever held one summit with African leaders under the Obama administration in 2014. However, both the Trump administration, as well as the U.S. corporate sector, are set to increase investment into the continent, in a bid to counter the narrative that China's influence in Africa is rising, while the U.S. falls off. President Trump signed legislation, the BUILD Act (Better Utilisation of Investments Leading to Development Act), into law in October 2018 and it combines the U.S. Overseas Private Investment Corporation (OPIC) and other U.S. agencies, focusing on international economic development, into a new consolidated agency called the U.S. International Development Finance Corporation (DFC). The DFC expands OPIC's budget from US$29 billion to US$60 billion and provides the DFC with authority to make limited equity investments. Previously, OPIC was limited to debt investments. It is anticipated that the DFC will be operational in October 2019 and there is potential that the DFC will increase the amount of U.S. equity capital invested in African private equity.

As at the end of 2017, South Africa shared the top spot for FDI contribution to other African countries with Morocco, followed by Kenya, Nigeria, Ethiopia, Egypt and Ghana. It is likely that the trend will continue into 2019, with increased investor appetite for East and West Africa, and Egypt and Africa, the traditional darlings of FDIs, being displaced by Morocco and Ethiopia.

Closing
Over the past few years, Africa has emerged as an exciting investment destination. Despite being afflicted by concerns of political and economic stability, currency and commodity price fluctuation and infrastructure deficiency, as well as questionable governance, as in any emerging
and developing markets, the continent continues to attract investors eager to diversify portfolios and dip into sectors and industries which, though challenging, have significant room for growth and development. 2019 should see investor appetite growing as several countries such as South Africa, Nigeria and Kenya continue to see undeniable returns for those willing to venture into some of the choppier waters of African private equity.

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