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Sector Report

Private Equity in Africa

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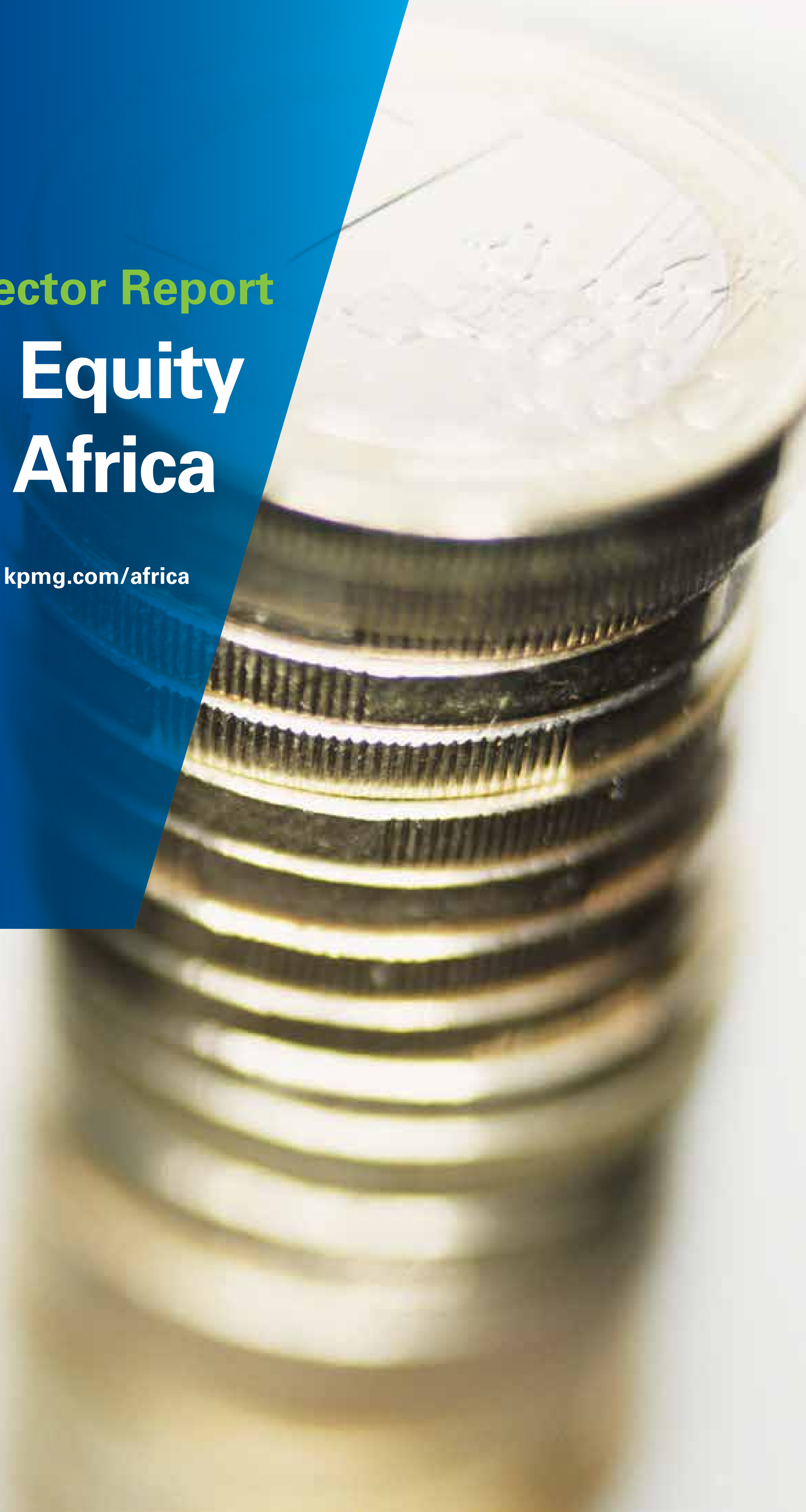

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- Oil and Gas in Africa
- Manufacturing in Africa
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The African Investment Universe

Enough has been written about Africa's current and potential attraction as an investment destination that a short overview will suffice for background to this report, which is about the private equity (PE) universe in Africa. This introduction will briefly summarise the main driving forces (political, demographic and economic) that continue to make Africa attractive for investment, and which are rapidly improving the perceptions of Africa held by investors and analysts in the rest of the world. Some conjectural aspects of Africa's economic growth favour PE investment, while others complicate it; this report will look at such encouraging or hampering factors, and discuss the extent to which they are currently playing a role in PE investment in Africa at the moment. In conclusion, the report will identify trends in these factors and to forecast the effects that those trends can be expected to have on the PE environment in the future.

Politics and Policies

A large part of the improvement in the African business and investment environment has come about thanks to the great strides that the continent has made in governance and political stability. While Africa remains unstable compared to other continents in terms of the number of active or simmering conflicts, these conflicts are far less frequent and less widespread than at any time in the past 50 years, with the long and tragic consequences of colonisation and liberation having wound their way to an end in most of Africa's countries. The exceptions to this trend, mainly in the Great Lakes region and across most of the Sahel, rightly continue to command media attention, but most of Africa's densely-populated areas are now at peace and can be expected to remain at peace.

Peace has allowed for improvements in governance, and democratic institutions and traditions are becoming entrenched in a growing number of African countries. In 1962 there were only four democracies and five partial democracies in Africa; 50 years later there are 24 full democracies and 22 partial democracies. As institutions grow stronger, corruption tends to decline, recourse to the law becomes available for individuals and companies, and political parties in power take service delivery more seriously in order to win votes. Such countries tend to adopt broadly convergent business legislation too. Democracies also tend to be more tightly integrated into the world economy, trade more, and agree to measures that encourage capital flows; indeed, countries so integrated begin to compete on world rankings for attractiveness to investment in order to attract more flows.

This process is well under way in Africa, so much so that pioneer investors, who identified opportunities when most investors considered the whole continent too risky to take a chance on, have earned extraordinary returns. International ratings agencies and merchant banks are keeping a close eye on developments in Africa to decide when to place economies in their 'frontier markets' categories, and when to upgrade these frontier markets to 'emerging markets' watch lists. Although some countries are stagnating or even regressing, the overall trend is clear and positive, and is resulting in increasing opportunities for the deployment of capital.

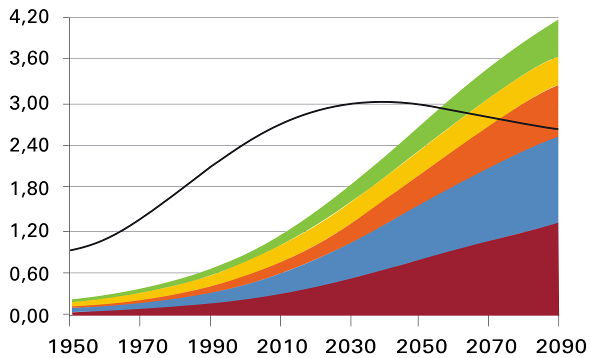
Commodities and Demographics

Africa's fast economic growth (sub-Saharan Africa showed estimated real GDP growth of 4.6% in 2013, compared to 3% for the world and -0.4% for the Eurozone) has two main foundations: commodities and demographics. The first is an old story – Africa has been a source of commodities for the world economy since Phoenician times – but the second is a more recent development and the role it can play in the continent's economic future is only now beginning to be widely acknowledged.

Sourcing and transporting African commodities remains an enormous business. Despite the global economic slowdown, and many analysts' nervousness about the extent to which China will be able to hold up as the engine of global economic growth, demand for commodities remains strong and prices have held up. Oil and gas prices in particular, while down from their 2008 peaks, remain high. There is regular news of discoveries of oil and gas deposits in African countries, or advances in production. The Indian Ocean coast has been particularly exciting for energy news in the past few years. Africa is a significant producer of other important minerals in the world economy like bauxite, cobalt, copper, gold, manganese, phosphate rock and diamonds.

Africa's unmatched agricultural potential continues to drive growth, even though most countries' governments are trying to diversify away from the primary sector. African countries are key suppliers of important commodities like cocoa, coffee and tea, and other crops like palm oil are increasing in importance. A trend of foreign investors buying or leasing land for food production is in its early stages, but can be expected to gather momentum in the coming years as the world's population approaches its peak around 2055. The opportunities for business, and so for PE investment, are legion.

Africa's Population by Region vs. China and India (billions)



Africa's population is forecast to continue to grow at faster rates than the rest of the world. The United Nations (UN) Population Division's projection is that Africa's population will exceed India's by 2023 and China's by 2025. The continent is forecast to be home to close to two billion people by 2040, double the current figure, and more than four billion by the century's end. At the same time this rapid growth in total population will be accompanied by a growth in the working-age population as the population pyramid gradually narrows at the base: in 2075, the UN forecasts that Africa's working-age population will make up 64.4% of the total, compared to 55.4% in 2010. Finally, this population is urbanising fast (albeit off a low base, compared to the rest of the world): in sub-Saharan Africa urbanisation is only forecast to reach 50%, the current global average, in 2040, but that represents a very significant movement of people if one bears in mind that the urbanisation figure for the region was only 36.3% in 2010.

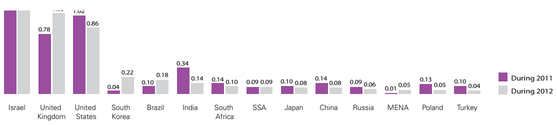
The African Investment Universe

These trends in demographics are underpinning an investment narrative that is becoming increasingly important, and which will only become more widely adopted as its first predictions come true. The narrative is that of growth in consumer demand in Africa. It is certain that the African consumer story will be a central part of the continent's economic evolution in the near future; if national governments can implement policy effectively in order to help create enough employment opportunities for Africa's hundreds of millions of new urban residents, then providing for those residents' wants and needs will be one of the world's most lucrative investment opportunities over the coming decades. PE managers are already positioning themselves to take advantage of the steepest part of this consumption curve, as will be discussed in the following sub-section.

Capital Markets

The relationship between the PE universe and capital markets is an important one. Listed and non-listed companies compete for capital, so efficient and attractive stock exchanges will tend to reduce the attraction of PE as an investment strategy. The sectors that are represented on a country's stock exchange, and the extent to which they reflect the composition of the country's GDP, can also influence investors into buying PE assets instead. Most PE managers use some level of debt financing when making deals, so high interest rates, and hence a higher cost of capital and a higher required internal rate of return, can limit the number of deals that look feasible; as such the relevant interest rates are not only those in the regions where investments are sought, but also in the countries where PE managers raise funds.

Private Equity annual investment by independents as a percentage of GDP (%)



Over the past five years, the quantitative easing programme of the United States (US) Federal Reserve (Fed) has been very relevant to a discussion of African capital markets. Quantitative easing is a monetary-policy scheme in terms of which the Fed has purchased over two trillion dollars' worth of US Treasury notes, bank debt and mortgage-backed securities in an effort to keep capital markets liquid and interest rates low. With developed-world yields at historic lows, much of this liquidity found its way to capital markets in emerging economies, including within Africa. The result was a rally in stock exchange indices as capital made its way to high-yielding emerging-market stocks. The rally seemed to confirm the wisdom of buying such assets and fuelled itself.

The Johannesburg Stock Exchange (JSE) all-share index went up almost 50% in two years (2012 and 2013), repeatedly hitting all-time highs (the most recent of which it attained in mid-February 2014). The Nairobi and Lagos bourses showed even more impressive performances in relative terms: the Nairobi Securities Exchange's all-share index gained 112% in the two years, peaking in January 2014 before starting to slide, while the Nigerian Stock Exchange all-share index gained 102% before it too began declining in January 2014.

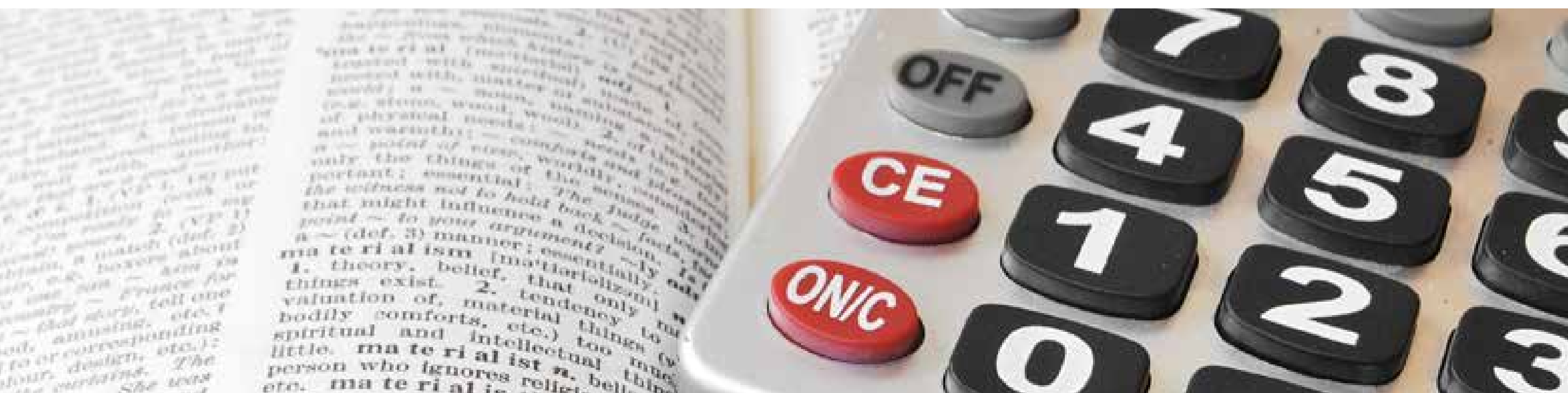
Valuations reached unprecedented levels, especially on the JSE where the price to earnings (P/E) ratio broke through 20 in November 2013, and remains above 19 as of writing. The Nairobi Securities Exchange's P/E went up from just over 8 in early 2012 to more than 14 in early 2014, while the ratio on the Nigerian Stock Exchange, long excessive owing to speculative trading and a low earnings environment, actually dropped in the period, but interest in Lagos-listed stocks was still strong enough to keep the ratio near 14. Considering the historic gap in perceived investment risk, these ratios show a remarkably narrow spread to P/E ratios in developed markets (15.9 for the Dow Jones Industrial Average or 17.6 for the S&P 500), a sign that there has been a lot of liquidity looking for a home, and that increasing numbers of investment managers are willing to take a chance on African assets. At these valuations, many analysts are sceptical about how much upside investors can still expect from African listed equities, especially as the Fed's gradual tightening of policy continues.

In late 2013 the Fed began 'tapering' its quantitative easing programme, scaling down the pace of its purchases. As of writing the Fed had reduced the pace of easing by almost a quarter in two decisions in December 2013 and January 2014, from US$85 billion per month to US$65 billion per month. The effect was most dramatic in economies that had earlier been identified as fragile on account of wide twin deficits financed by hot-looking capital inflows; this list included South Africa. The tapering has not, for the moment, led to a dramatic sell-off on African equities markets (instead the currency markets have been affected most dramatically), but the danger of such a sell-off increases as tapering continues and yields in developed markets creep back up.

Apart from this risk there are other reasons to prefer PE to investments in listed equities. For investors who want to hold portfolios that reflect the sectoral composition of African economies, tracking all-share indices or even indices of the most liquid listed equities tends to be a poor choice. Certain sectors are overrepresented – especially finance, real estate, telecoms and mining. In many countries important components of GDP are not represented on the stock exchange at all, and there are few options in exciting industries like consumer goods, a sector which, as explained above, is attracting tremendous interest among investors at the moment.

There has been some indication – but not as much as one would like to see – that the PE industry has been meshing with the listed universe through initial public offering (IPO) exits, with owners benefiting from historically high stock prices to exit at advantageous prices. While there is plenty of evidence that 2013 saw many such exits in developed markets, IPOs were less frequent in Africa, where a sale to a strategic buyer remains the preferred mode of exit. The greater scrutiny of listed companies compared to private ones discourages many potential listed companies from coming to market and so there is no reason to expect a rush of new listings in the near future. In Kenya there has been a recent trend of delistings from the Nairobi Stock Exchange that has caused some concern over whether the bourse is still an attractive option for corporate managers; many commentators are of the opinion that the reporting and oversight requirements of operating as a listed entity are overly onerous, and that it makes sense for most managers to prefer to operate as a private entity. In the three cases – AccessKenya, CMC Motors and Rea Vipingo – the delisting process was initiated following a strategic takeover.

As a consequence of the factors outlined here, stock markets in Africa will not, at any time soon, start offering much easier exits to PE investors.



Fundraising and Fund Managers

According to PE specialists Prequin, fundraising in the PE space is at "unprecedented" levels: in 2013 the firm says that 873 PE funds raised an aggregate of US$454 billion worldwide. But emerging markets account for only a portion of this amount, and African managers only a minor share of that. According to figures from the Emerging Markets Private Equity Association (EMPEA), 11 PE funds focused on sub-Saharan Africa raised US$922 million in 2013, down 46% from the figure in 2012. In contrast, Private Equity Africa puts the figure at well over US$2 billion for 2013, with both Ethos and Abraaj closing US$800 million funds, and KPMG has reviewed publicly available information and notes US$16.8 billion was raised for PE ventures in Africa in 2013. Of this US$5.6 billion is for South Africa. The remainder US$11.1 billion is for the rest of Africa, excluding South Africa. More growth in assets under management (AUM) raised for PE investments in Africa is expected: according to Prequin's figures, 99 Africa-focused PE funds are currently in market, targeting an aggregate US$26.7 billion for closings in the near future. When one compares this figure to the US$50 billion in total foreign direct investment (FDI) that the United Nations Conference on Trade and Development estimates flowed into Africa in 2012, it is clear that PE capital represents an extremely important source of capital for the African continent's economic development.

The greatest number of PE funds that have an Africa focus are specialised funds with a particular sector focus, usually natural resources, infrastructure or renewable energy. But the biggest operators are the established global players which have lately started to close dedicated pan-African funds.

These funds invest across sectors, and their preferences can be leading indicators as to the sectors that the industry more generally considers attractive. Then there are the African fund managers, often with regional focuses, which operate quite successfully as their investment ticket sizes usually correspond well with the kind of deals that are available in Africa, often too small for the major players to look at. Still smaller are a whole constellation of minor PE managers, often family offices, that look at small and medium enterprises (SMEs) for deals worth US$5 million and less. The activities of these managers seldom make the news, but collectively they are playing an important role in developing the PE industry, and in providing targeted capital for the SMEs that play such a big part in Africa's economic development.

Development financial institutions (DFIs) play a supporting role in the PE universe in Africa by lending to projects in which PE investors have put capital. The African Development Bank (AfDB) is especially important in this role, with over US$800 million committed to PE funds. The AfDB's buy-in into a PE fund often allows that fund to attain a certain threshold investment, and its reputation for caution and meticulous risk analysis gives other investors confidence in the management team. So the capital allocation decisions it makes have a real shaping effect on PE flows: the AfDB says that for every US$1 million that it invests, other institutions invest US$5 million.

Another significant DFI is the World Bank's International Finance Corporation (IFC), which has investment commitments of more than US$3 billion in North and sub-Saharan Africa. Comparable are Britain's CDC Group (originally the Colonial Development Corporation, but only the initials are now used), the Netherlands' Development Finance Company (FMO) and France's PROPARCO, which is majority-owned by the Agence Française de Développement. In 2004 the CDC spun off its PE business as Actis and now does all its direct investments through Actis; the latter has a total of US$5.2 billion in AUM, of which 38%, just under US$2 billion, is invested in Africa. Another development fund of this type is the China-Africa Development Fund (CAD Fund), which had US$800 million invested in Africa in 2010, much of that in mining operations seen as strategic for China.

Pension fund managers are already important players in the PE space in Africa, and their importance is set to increase. Since 2012 South Africa's Public Investment Corporation (PIC) has a mandate to invest 5% of its AUM in Africa outside of South Africa, or up to US$6.5 billion. Given the problems with liquidity and ticket sizes discussed above in relation to listed equity investment, the PIC has said that it may invest up to 60% of that amount in PE, where it says it is looking for "wise investments in infrastructure and SME initiatives" to "promote sustainable economic growth."

The pension fund of South Africa's electricity parastatal, the Eskom Pension and Provident Fund (EPPF), has R77.6 billion in AUM, of which it invests R1.5 billion in private equity. Although its mandate calls for equity investments in Africa outside of South Africa to be in listed equities, it says that in practice a private equity mandate would better allow for the deployment of capital and that it is strengthening its internal PE team accordingly. In Morocco the Caisse de Dépôt et de Gestion (CDG), the public pensions manager, has Dh170 billion or US$21 billion on its consolidated balance sheet, of which Dh3 billion is managed by the group's private equity arm, CDG Capital Private Equity.

Sovereign wealth funds (SWFs) are a relatively recent development in Africa, at least more recent than in the rest of the world, but especially oil-producing countries have begun to set up such funds in recent years. Angola's SWF, managed by the president's son José Filomeno Dos Santos and with US$5 billion in assets, has a "strong focus on investments in the domestic market" and on "building Angola's infrastructure." It has earmarked a third of its AUM for equity investments in emerging and frontier markets, mostly in Africa, with a particular focus on "agriculture, mining, infrastructure and real estate – particularly hospitality." It should be noted that there has already been controversy around one of the fund's investment decisions: the purchase of a lavish commercial property in London. In turn, the Libyan Investment Authority has up to US$65 billion in assets, but has historically preferred listed equities in developed markets and there has been no indication as yet that it will pursue PE investments in Africa. Other SWFs like the Ghana Heritage Fund, with US$55 million in assets in mid-2012, will not touch PE and invest only in investment-grade interest-yielding paper.

The Carlyle Group, a giant with US$185 billion in AUM, launched a US$500 million dedicated sub-Saharan Africa Fund with the AfDB as an anchor investor in 2011 and opened offices in Johannesburg and Lagos. It began investing in Middle East and North Africa (MENA) markets in 2006, and has already made some interesting plays in Africa. Other behemoths have started their African portfolios with stakes in more developed markets, like Kohlberg Kravis Roberts with its controlling stake in Egypt's Hedef Alliance, or BlackRock with a position in South Africa's Umcebo Mining. We expect these portfolios to include more African positions over time. Blackstone, which has a number of energy positions in its global portfolio, has invested in an offshore exploration deal with Kosmos in Cameroon. Dubai's Abraaj collected quite a few sub-Saharan investments with its buyout of Aureos Capital in February 2012, while Saudi Arabia's Kingdom Zephyr manages a dedicated US$600 million pan-African fund and has other North African positions in its global funds.

Britain's Standard Chartered Bank has invested more than a billion dollars in private equity worldwide, much of that in Africa.

The biggest dedicated Africa PE manager is Washington-based Emerging Capital Partners (ECP), which has raised over US$2 billion for investment in Africa. The United Kingdom's (UK's) Helios Investment Partners is of a similar size: this Africa specialist has US$1.7 billion under management. South Africa's Investec Asset Management manages the Africa Frontier Private Equity Fund which closed at US$135 million in 2008.

It is difficult to obtain reliable figures for the PE industry owing to the confidentiality that is very important to the various actors in the space. While many important deals are announced publicly, many others are not, and when a deal is announced

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through the media its price is usually not made known. To analyse the PE universe the most ground can be covered by looking for deal announcements to see what deals have been done by certain known PE fund managers in Africa, and to combine this type of anecdotal evidence with more thorough analysis of the data maintained by industry experts like RisCura or Africa Assets, to the extent that this more methodical information is made available (it is proprietary and usually shared only on a very limited basis).

Energy plays remain very important in foreign direct investment (FDI) in Africa in a broad sense, but does not generally show up as PE investments because international oil companies tend to try to integrate their assets with global operations, or, alternatively

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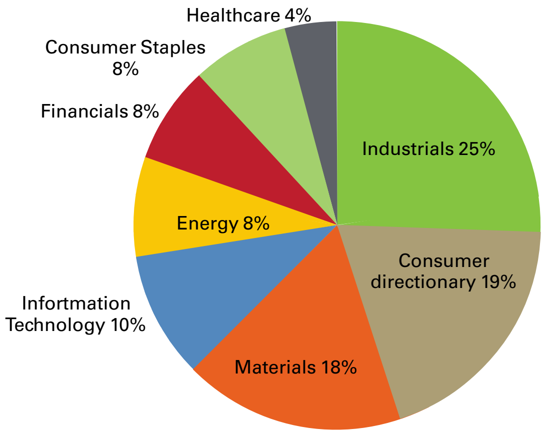
to sell them to other majors. However, there have been some recent notable exceptions. Of the US$1.6 billion that sub-Saharan Africa attracted in PE investment in 2013, US$600 million represented a single deal: a sum that Warburg Pincus invested in Delonex Energy, an oil and gas explorer in Kenya. Global PE giant Blackstone has been especially visible in the energy sector. In 2012 the company announced that it planned to invest a total of US$3 billion in energy in Africa, focussing on hydropower and geothermal generation. It has already made three major investments: in the Bujagali hydropower station in Uganda, in the Ruhudji hydro plant in Tanzania, and the Ruzizi hydropower project which will supply current to Burundi and the Democratic Republic of Congo (DRC). BlackRock, the world's largest asset manager, has a position in Umcebo, a South African coal miner. One of Actis's funds will soon own a majority stake in Cameroon's national grid. Infrastructure more generally is an attractive sector for PE investment in South Africa in particular: in that country, infrastructure attracted the greatest share of PE investment in both 2012 and 2011. There were no significant PE deals in the minerals and mining sector in 2013.

The sector in general seems to be in a consolidation phase, with assets mostly changing hands between a small group of huge mining multinationals, and those companies accounting for the lion's share of new investment and merger and acquisition activity. The last major PE deals in this sector took place several years ago, and include one of the biggest PE deals ever concluded in Africa: the US$1.4 billion leveraged buyout in 2007 which saw Abraaj acquire Egyptian Fertiliser Company.

PE investment plays an important role in real estate investment in Africa, but this role is easy to overlook because the relatively small ticket sizes attract smaller fund managers which do not usually announce their deals. Actis is a notable exception, having demonstrated a liking for large-scale property developments. Some of Actis's notable investments in the sector are the Garden City development in Nairobi, the Accra Mall development in Ghana, Capital Properties, a commercial real estate venture in Tanzania, and the Ikeja City Mall in Nigeria.

The AfDB has committed 7.5% of its total PE investments to the agribusiness sector, focussing on "companies operating in food production, processing, manufacturing, storage, distribution and marketing." One of its notable investments is Notore, a Nigerian producer of farming inputs (especially fertiliser). In 2013 French dairy giant Danone and Emirati PE manager Abraaj partnered to buy out Fan Milk in West Africa. South Africa's Agri Vie is an agriculture-specific PE manager which made some notable investments in 2013: a R50m investment in Tanzanian Food Corporation, and the purchase of a US$5 million stake in Kariki Group, a Kenyan flower farming and exporting company. Phatisa is another South African asset manager with a similar focus, and its portfolio includes Goldtree, a palm oil business in Sierra Leone, Goldenlay, a poultry farming business in Zambia, and Feronia, a palm oil company in the Democratic Republic of Congo (DRC).

PE Deals by Sector and Number, 2006-12



Source: RisCura

According to PE experts RisCura, the 'consumer discretionary' sector has been the most attractive to FDI over the 2006-12 period (with industrials in second place and materials, which includes mining sector assets, third). The difference is that the graph is by numbers while the narration is by value. It calculates that 28% by value of PE deals over the 2006-12 period were in the consumer discretionary sector, 26% in industrials and 20% in materials. Two logistics deals in 2013 were interesting for the insight they give into the thinking of expert international PE managers: Carlyle and Investec teamed up to buy into J&J Africa, a Mozambique-based road transport specialist. The deal anticipates high demand for road transport capabilities as Mozambique's economy continues to grow rapidly. Carlyle made a comparable play in West Africa in late 2012, when it teamed up with Remgro and Standard Chartered to buy a stake in Benin-based Export Trading Group.

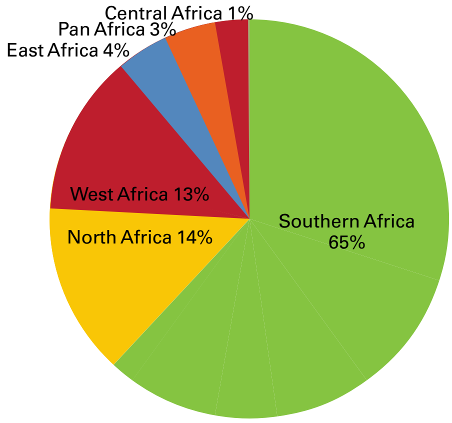
The same consumer growth story that is fuelling PE investments in consumer goods companies makes the case for investment in financial services firms and telecommunications providers. In the former sector, of the main players in PE, Actis announced in 2013 that it intended to acquire Paycorp, a South African payments business, for US$95 million. ECP owns Finadev, a microfinance holding company with assets in Benin, Chad and Guinea, and also has a stake in NSIA, an insurance company with operations in 11 countries in West and Central Africa. Interesting for its focus on the urbanisation story was Abraaj's acquisition of a majority stake in Ghana Home Loans, the leading mortgage lender in Ghana, in 2013. On telecoms, as in mining, productive assets tend to go to multinationals that bid high for them, and PE investment in the sector tends to go to interesting ancillary companies that provide services to the main mobile telephony operators. ECP has some interesting examples of such plays in its portfolio, like a stake in IHS, a West African telecommunications infrastructure provider that specialises in rolling out mobile telephone towers, or Wanachi, a pay television and high-speed internet provider in Kenya and Tanzania.

Healthcare is an interesting sector: it remains relatively small compared to other sectors but is set to grow on the same fundamental economic trends as the consumer goods sector. Aureos already features prominently in this sector thanks to its US$105 million Africa Health Fund, a semi-philanthropic vehicle funded by the IFC, AfDB and the Bill & Melinda Gates Foundation. The AfDB says that 2.7% of its PE investment is in healthcare, and the proportion is higher in East Africa: almost half the Bank's healthcare investments are in that region. In 2013 Swedfund and Abraaj teamed up to invest US$6.5 million in the Nairobi Women's Hospital; it is probable that the success of private medical care in South Africa will result in some changes to the healthcare sector elsewhere on the continent, which will offer interesting opportunities for PE investment.

Deals

Geographies

PE Deals by Region and Number, 2006-12



Source: RisCura

In recent years, South Africa's developed market has presented the greatest attraction for PE asset managers. This enthusiasm for South Africa skews breakdowns of PE flows by region, as the great majority of flows to the Southern African region go to South Africa. In RisCura's database of PE deals over the 2006-12 period, for instance, Southern Africa accounts for 65% of deals (by number, not by value), but most of those deals were made in South Africa. The KPMG-SAVCA Private Equity Survey yields comparable figures where 644 disposals were made in South Africa over the same 2006-12 period with a total value of US$9 billion.

But there are signs of a shift in focus. According to data made available by Zephyr from its proprietary database, the value of PE deals in South Africa fell by 91% between 2012 and 2013, from US$911 million to US$79 million. Zephyr and other commentators have seen this as an indication that other African geographies now look more attractive to dealmakers than South Africa, with its (relatively) slow economic growth, mature markets, and warnings signs over labour and power supply issues. However, South Africa should not be discounted as it remains a significant PE geography with US$12.6 billion funds under management according the KPMG/SAVCA 2012 survey.

North Africa's PE space is very well developed thanks to the long presence in that region of expansionary financial services firms, often owned by established global banks, three sizeable, mature and diversified economies in Morocco, Tunisia and Egypt, and opportunities in the region's two undiversified but rich energy exporters, Algeria and Libya.

The region's well-developed capital markets help the industry, as well, as was shown in 2014 when ECP exited SAH, a hygiene products manufacturer, by IPO on the Tunis Stock Exchange. North Africa accounted for 14% of PE deals in 2006-12, according to RisCura, but in this region, too, there is evidence that growth has slowed, if not reversed. Investors are nervous about the political risk flowing from the Arab uprisings in the region and fiscal imbalances in some countries.

West and East Africa are the fastest-growing regions in Africa for PE activity. In East Africa, fast progress on economic integration in the East Africa Community (EAC) is making investors enthusiastic about the possibilities for unlocking value by identifying and leveraging regional synergies, and of exiting by selling assets on to multinationals once regional potential has been realised. Kenya especially is a hub of financial and economic activity, and the site of a busy PE industry. Two interesting recent deals in Kenya were both focused on the consumer sector: Actis bought AutoXPress, a tyre retailer, and Dutch PE fund TBL Mirror invested in Amadiva, a range of beauty salons. The latter deal, though small, is an interesting play on the growth of Kenya's well-off urban population. Rwanda, while a much smaller economy than Kenya, is a hive of economic activity as the government seeks to encourage entrepreneurship by means of various initiatives. One notable PE deal in Rwanda in recent years was Actis's 80% position in Banque Commerciale du Rwanda, which it successfully exited in 2012 by means of a sale to Kenya's I&M Bank. Recent deals in Rwanda have been considerably smaller, and include Kenya's Fusion Capital's acquisition of 46.5% of Rusororo Aggregate, a mining firm, for US$2 million, and agriculture plays like a US$3 million deal by Fanisi Capital (also Kenyan) for a minority stake in ProDev, an agriculture business that makes maize meal.

West Africa's investment story is largely driven by Nigeria's immense population. More lately, there have been plays on Cote d'Ivoire's reconstruction after the political crisis, and on investing in the rebuilding of the country's economically vital agricultural sector. Ghana's energy and mining sectors attract investment too, although PE managers in those spaces tend to be driven out by capital from specialist multinationals. In January 2014, Sweden's AfricaInvest announced that it had made a US$20 million investment in Broron Oil & Gas, a Nigerian oil and gas services company. Jacana Partners, a smaller manager, bought a stake in Ghana's Process and Plant Sales, which supplies goods to the mining and construction industries. A consumer-focussed play mentioned earlier is Abraaj's acquisition (with Danone) of Fan Milk.

Conclusion

The PE industry in Africa is booming, and continuing economic growth portends yet more opportunities for PE fund managers in the future. Markets that are still tricky to access because of security issues, regulatory impediments or severe infrastructure backlogs will, gradually, start offering more opportunities. In markets that already offer good investment plays, the increasing diversification and the growth of the services sector will widen the range of companies that fund managers can invest in. The KPMG review of funds raised of US$16.8 billion for 2013 strongly supports this.

Exits, too, will become easier as Africa becomes more of a mainstream destination for the bigger PE managers that can take over positions from smaller specialist funds, as multinational corporates enter new markets and look at assets held by PE managers, and as capital markets develop and facilitate IPO exits. As ever-larger parts of Africa are seen as normal places to invest in, the supply of capital will tend to limit the massively profitable opportunities that still exist at the same time as the risk that makes these profits possible declines. But pioneer investors can take comfort in the thought that Africa's wilder places will still be wild for some time.

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PROPARCO

Reuters

RisCura

Standard Kenya

Wall Street Journal

Washington Post


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