



## Exploring African investment

**Continent seeks capital, though its remarkable potential is matched by its tremendous risk**

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Africa could be viewed as a financial wild west that might prove lucrative for adventurous investors looking to cash in on emerging markets – as long as that investment recognizes the dangers that exist on the continent.

"Africa presents investors with both tremendous potential and tremendous risk," analysts Jose Rasco and Richard Bernstein wrote in a July report for investment banking firm Merrill Lynch.

The continent, while still suffering from stark gaps between the rich and poor, is seeking investment from abroad, albeit on terms more favourable to its people.

Countries seeking capital include the likes of Namibia, with its uranium deposits; Angola, which boasts massive diamond reserves and a more stable political landscape; South Africa, with its mature economy, and oil-rich northern states.

Despite a wealth of resources, long-standing conditions that have served as obstacles to Africa's growth and prosperity remain significant, including war, violence, underdeveloped legal and financial systems, a lack of health care, widespread

AIDS, malnutrition, inadequate infrastructure and glaring gaps between rich and poor.

Nevertheless, the "bull" case notes an increase in debt relief and investment money flowing into Africa. Its markets haven't received much attention.

Canadian tax laws on mining investment encourage junior mine companies to list on the Toronto Stock Exchange and Canadian diplomats help them network and deal with foreign governments.

"The continent may be poised to enter an unprecedented stage of economic development," Merrill Lynch states, noting 100 companies in more than 20 countries will be a position to capitalize on that growth.

Africa, according to the International Monetary Fund, has seen its commodity-fuelled economic growth average 5 per cent, exceeding average world growth of 4.2 per cent since 2001. The IMF forecasts African growth will average 5.6 per cent until 2012. Meanwhile, the World Bank estimates foreign direct investment in Africa has increased fourfold since 2000, to about \$40 billion last year.

Merrill Lynch singles out 10 "major investment opportunities" that should hold up until 2017 on the continent – oil, commodities, agriculture, land and water, health care, infrastructure, telecom, information technology, defence, financial services and retail.

Bruce Shapiro, president of MineAfrica, a Toronto-based company that promotes investment in the continent through seminars that connect junior miners to analysts and investors, said 150 TSX-listed companies are exploring and developing mines in Africa, representing about 50 per cent of mining activity on the continent.

International miners operating on the continent include titans such as BHP Billiton and Anglo American – both of which trade on several exchanges including London and Johannesburg.

Gavin Graham, chief investment officer of the Guardian Group of Funds, says South African companies pose the lowest risk, though for Canadians already heavily invested in mining, "Africa isn't a great diversifier," offering little to differentiate or improve on those holdings.

But there are other types of companies operating in Africa besides the oil and metals players – beer makers, telecom firms and insurance providers, for example.

Graham personally owns stock in South Africa's SABMiller, with brewing operations in 60 countries, and insurance company Old Mutual PLC, which owns Skandia Group. Both are also listed on the London stock exchange.

"They were under followed during apartheid," Graham says of SABMiller and Old Mutual. He suggests dealing with a Canadian broker who can trade on the London stock market is a good way to buy into African companies without opening up a broker's account in Botswana.

He also likes Orascom, an Egyptian telecom company. And it's possible to buy depositary receipts, so you can have all the rights of stock ownership without having to buy the shares on the foreign exchange.

Graham also cites platinum companies like Anglo-Platinum, a subsidiary of Anglo-American, and Lonmin as potential buys, as well as the Sun Resorts company.

However, Graham says most investors are scared off by major problems such as the AIDS epidemic that has swept sub-Saharan Africa, causing many workers to die in their prime and incurring huge medical costs for their employers.

Graham said that emerging markets' mutual funds can sift through the dozens of companies and narrow them down to a few undervalued opportunities, saving investors much of the hassle and some of the risk.