Africa: the last big consumer story?

Emerging markets around the world, including Africa, have seen an enormous amount of volatility over the past year, yet investment themes and opportunities do exist. Africa in particular presents growing opportunities for investors, and the continent should not be treated as being one homogeneous market.

Jonathan Stichbury

This is according to Jonathan Stichbury, head of PineBridge Investments' equity business in Africa, who says, "When I think about Africa, I think about the growth of the middle class and increasing consumption. The continent is coming off a relatively low base, but it has a demographic advantage.

"By 2050, 20% of the world's population is going to live on the Africa continent, and with GDP per capita increasing as it is currently, people will have significantly more money to spend. On the back of this we're seeing an increasing number of multinationals enter the region because they realise this is one of the last big consumer growth opportunities."

Stichbury says that the recent economic growth witnessed in Africa has resulted in an increased number of options to invest in. "Africa now has more than a dozen stock exchanges, which is probably five more than what was present on the continent a dozen or so years ago.

"On the fixed income side, 20 years ago we largely had only T-bills to invest in; now yield curves can extend to 30 years and there are growing corporate bond markets as well. Despite having quite low debt-to-GDP ratios relative to developed markets, the yields on fixed income are often well into double digits."

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Stichbury says there are many sectors that can benefit from consumption growth and that they are not all related to fast-moving consumer goods. "Banking is one such sector. According to the World Bank Global Findex Database 2014, 60% of the population in Africa still doesn't have a bank account. "However, with the adoption across Africa of mobile phone technology and agency banking, banks no longer have to use a brick-and-mortar branch network model. Using technology, they can now reach the bottom of the pyramid more efficiently, and so banking is growing strongly across the continent."

Increasing living standards

He clarifies that other sectors expected to do well include retail, health care, cement, and education, as they are all sectors that benefit from changing social mobility and increasing standards of living.

Stichbury warns against investors viewing Africa as being a homogenous region. “I think many people don’t quite grasp the size of the continent and its markets. Africa is huge, with 54 countries that represent 20% of the world’s land mass. I think the main misconception is that it’s uniformly a very risky place to do business.

“Out of 54 countries, you are always going to find some that make the headlines for the wrong reasons – Somalia, Sudan, and Zimbabwe spring to mind. But over the last 10 to 15 years, we’ve seen many countries adopting sensible macroeconomic models whereby they have brought inflation down and appointed technocrats to run their treasuries and central banks. As a result, trade barriers and foreign exchange controls have come down.

“On top of this, tax incentives for foreign investors have been introduced, and all of these factors are driving stronger economic growth.”

Chinese influence

He clarifies that China’s impact on the continent’s markets has brought pros and cons for different regions. According to the IMF World Economic Outlook Database, as of October 2015, China, which remains the world’s second-largest economy, is now Africa’s largest trading partner, with US$ 222 billion of goods and services in 2014.

Stichbury says that China’s impact has largely been a commodities story, with both winners and losers. “The losers have typically been the commodity producers. For example, Nigeria has the largest economy in Africa and is a big oil producer, while Zambia’s economy depends heavily on copper production. The winners have been the oil importers, including Kenya, Tanzania, Rwanda, and Uganda – whose economies are expected to grow between 5.5 and 7% this year.”

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“As with many other parts of the world, Africa overall is a mixed bag. Equity and currency markets in Africa have also, undoubtedly, felt some pressure from rising US rates, but foreign direct investment into Africa remains robust and private equity fund raising is doing well.

“The announcement, at the China Africa Cooperation summit in South Africa in December 2015 (World Bank Investing in Africa Forum, 2015), that China would deepen its economic ties with Africa with a further US$ 60 billion finance package in loans and aid*, will help to underpin the long-term growth potential of Sub-Saharan Africa,” Stichbury concludes.

**China is currently involved in approximately 2 500 development projects with a combined value of US$94 billion.*