Spotting the winners

The news is good: growth is up, living standards are on the rise and an expanding group of sub-Saharan markets offer stronger growth opportunities to offset the maturing cycle elsewhere. But, as Tope Lawani, Managing Director of Helios Investment Partners, explains, Africa is fundamentally a negotiated market. Detailed knowledge is the key to success.

Interview by Paul Melly, writer on African business and development issues

How, in practical terms, does the new investor approach a region of 56 widely varying countries, each with its own specific political and business issues? To make matters more complicated, there is hardly a surplus of specialist know-how. Outside providers are increasingly keen to get involved, but they need guidance – and that poses challenges. “Interest in the region is running ahead of the formation of investment managers with the capability to do it,” says Tope Lawani. As Managing Director of Helios Investment Partners, with USD 10 billion of venture capital and leveraged buyouts on his CV, he now heads one of the few frontier or emerging market advisory houses dedicated to business south of the Sahara.

The temptation is to settle for a portfolio approach, seeking to spread risk by buying into a broad spread of assets in a range of markets – working on the assumption that favorable macroeconomic and financial market trends will translate into a reliable and broad-based return. But Mr Lawani, himself a Nigerian, vehemently disagrees with such thinking. He is dismissive of the suggestion that “a rising tide will lift all boats,” arguing instead that some local exchanges do not offer the liquidity or information flow to generate smooth market functioning suitable for a portfolio investor.

“Africa is, fundamentally, a negotiated market,” he insists. Opportunities are highly specific, so to assess their value and the risks, it is essential to have detailed knowledge of both the business or project in question and the local regulatory environment. Equally, explains Mr Lawani, investors need to understand the behavior of consumers in the countries and sectors in which they plan to place their money. You cannot rely solely on information in the public domain; you need to appreciate the “story behind the story.”

The new type of challenge is exemplified by Nigeria, following recent banking reforms. “The Central Bank regulator in Nigeria has done an exceptional job; this resulted in the growth of the banks, the concentration of the banks and the increase in their deposit base.” However, he says, “a very good argument could be made that the capacity of the banks to mobilize capital has outstripped the capacity of the banks to deploy the capital prudently. I would doubt that there has ever been an example of a banking sector that has grown so quickly, without mistakes being made.” So a potential investor in Nigeria’s booming banking sector has to know how to identify which banks have the understanding and the systems to avoid taking on excessive risk.

Finding expertise

Such specific questions apply across business sectors and countries throughout Africa. The tide may be rising in many countries – “We do think that the future is actually brighter than the past,” he says – but some boats will still sink; so it’s vital to invest in the ones that have no concealed leaks. He says there is just a small clutch of funds and advisers with the detailed regional expertise essential to provide an effective service to the nonspecialist new investor: “There are fewer than ten, and maybe four or five are very good, very credible.” But Mr Lawani says that if you can find the

One example of a substantial name that has developed its existing African operations by bringing in new outside funds and expertise is Portugal Telecom. The company owned several fixed line and mobile operators, in Botswana, Namibia and Portuguese-speaking markets; these activities had been growing, but not at their full potential. So in August 2007, the group brought in experts from Mr Lawani’s team who aggregated the various operations into a coherent whole, with a single holding company, Africatel. In this leveraged recapitalization, some USD 450 million was raised in debt financing, while equity capital came from the investment fund.

right manager, they should be able to offer substantial returns. Over a ten-year span, a specialist frontier markets fund manager ought to be able to return four times the invested capital. Such a player may operate as a private equity fund adviser, with clients feeding in their committed capital over time, as opportunities it identifies become available.

In Helios' case, the investment firm divides Africa into three broad groups in terms of country risk. "Tier 1" markets are those with a track record of growth and basic strength, offering good opportunities and often attractive synergies from regional integration; Nigeria, South Africa, Kenya, Tanzania and Uganda might fall into this category. "Tier 2" markets also have a good track record, in economic terms, but some may be poor. These are countries where a fund manager has specific local knowledge and which, like Benin, may also benefit from their ties to neighboring stronger markets. Finally, the rest of the continent is treated as "Tier 3" – where the firm will look at individual opportunities but not systematically seek to develop openings.

Opportunities for outside investors

A specialist fund manager can be of particular help to firms looking seriously at Africa. "Because of colonial history and the history of relations between Europe and Africa, you have a lot of European companies that have operations in Africa – and often, these have been there for a long time," Mr Lawani notes. The strategy of some of these firms may have evolved over time, so that their African activities, while still viable, are no longer core businesses. Talking to such companies about releasing value by buying out all or part of these fringe African operations is an option. For the non-African parent group, these may now be secondary activities that do not benefit from the management effort and dynamic push that they deserve. Once in the hands of a new investor, they can produce an improved performance – while the deal delivers a one-off financial return to the former owner.

But this is not the only scenario. "In some cases, European firms have African subsidiaries which they would like to grow. But they have found that they are not able to dedicate sufficient capital to African expansion," explains Mr Lawani. An investment fund could bring the necessary new capital in and then retain a share of the business. In a third scenario, a European firm may not be in the African market at all, but now wants to establish a bridgehead.

A typical example could be a large supermarket group keen to take advantage of the growing consumer buying power of the sub-Saharan middle class, but unsure where to start. The fund could participate in the deal, adding value – and of course give its own investment clients a chance to participate in the new development. Some of these approaches may pose greater challenges and require greater expertise than traditional portfolio investment. However, this is a time of growth and development progress in sub-Saharan Africa – and that is spawning opportunities for investors from outside the continent. There is genuine complementarity between Africa's success and strong investment returns.

But Tope Lawani argues that detailed country, sector and deal-specific knowledge is key to success. He advises potential investors to eschew a portfolio approach and look, instead, to those expert fund managers with a detailed understanding of African businesses, projects, social and economic conditions, and the regulatory environments. They, he believes, can identify investment openings and turn them to remunerative success. ■

Photo: Thomas Eugster

Tope Lawani, a Nigerian, is cofounder and Managing Director of Helios Investment Partners, an investment firm focused on private equity investments in West Africa. Previously, Mr Lawani was a principal at Texas Pacific Group, a global private equity firm. There, he played a lead role in the execution of over USD 10 billion worth of closed venture capital and leveraged buyout investments. He has an MBA from Harvard Business School.