KEYNOTE INTERVIEW

Creative investors thrive in Africa

Africa brings its challenges, but other markets just would not be as rewarding, says Tope Lawani, managing partner at Helios Investment Partners

Q What is the mindset you need to be successful investing in Africa?
When you operate in a developed economy with mature capital markets and a robust private equity industry, you can focus on what is for sale and whether you want to buy it. When you are operating in a less developed economy with far less developed capital markets and a more nascent private equity industry, you cannot do that.

Instead of focusing on finding what is for sale, you need to focus on identifying the challenges you can solve in order to make money. That is the starting point and then putting a corporate deal around that comes next. That requires a truly entrepreneurial mindset.

You have to think as a business person first and foremost, with an investor's overlay. You have to be prepared to think creatively, make observations about the environment you are operating in and be able to come up with the ideas that might make profitable businesses.

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Q Why not pick a less challenging market to invest in?
From a pure investment standpoint, Africa has most of the world's fastest growing economies, driven by demographics, by urbanisation and technological innovation. It is not growth stimulated by monetary policy, such as we have been seeing in the developed West. There has also been significant economic and political liberalisation, which we believe will continue.

It is also the least developed continent and the one where capital is most scarce. As a result, asset prices are much lower than elsewhere and the prices you are paying relative to growth are dramatically lower than you would get in the developed markets.

But it is more than that. Africa is a market where you can really see the value private equity creates. In more developed markets private equity is still creating value, but it feels marginal compared to the value you can create in Africa.

Africa is also a more intellectually challenging environment. There are more gaps in information so you need to be much more of a first principles investor, because even in the absence of information you still need to come up with an answer. You need to be a better investor to work in these markets and you need to be better at breaking problems down into their bare essence.

Q How do you do that?

You need to reinvent each and every element of the investing process from buying to building to selling. You need to rethink the approach to origination, again focusing on identifying where capital and expertise can be used to profitably solve significant challenges. Of course, the notion of applying a very hands-on, operationally intensive value-creation methodology to the ownership process is well established, but the process of how you do that in Africa is very different. We have had to be pioneers there because no other firm had done it.

We have learnt a lot on exits as well. There are global investment banks that are very experienced in listing or selling portfolio companies for private equity firms but even the very best are not experts at doing this for African companies.

With Vivo Energy, which is a petrol stations business that we listed on the London Stock Exchange last year, and with others, we have had to blaze a trail in getting these companies to market. It is hard but exciting. We are business builders by nature.

Q In a continent as vast as Africa, how do you choose which markets to invest in?

We are pan-African in our mandate and our exposure, with portfolio companies in more than 30 countries across the continent. Within Africa the capital markets of the different countries are themselves not very correlated, so being pan-African is itself very diversifying.

One of the challenges in Africa is that the size of the individual national economies can be a limiting factor. Scale allows for better management teams, better financing, better control over your value chain and better exit options, but you cannot get that staying within smaller markets.

Equity Bank, the largest bank in East Africa, is a case in point. We invested in 2007 when it was operational only in Kenya. It was well-managed and successful, serving an underbanked population. It had pretty much covered the market and was running out of scope to expand domestically.

We expanded Equity Bank into Uganda, Rwanda, Tanzania and South Sudan.

Case study: Axxela

Sub-Saharan Africa still lacks access to reliable power supply, a necessity for economic development.

Electrification rates in Nigeria are less than 50 percent, with even lower electricity supply levels due to the poor state of the transmission and distribution infrastructure. Industrial activity is dependent on self-generated power utilising either imported liquid fuels or domestic gas where accessible. Nigeria has abundant domestic gas resources (the largest in Africa and ninth largest in the world) and utilising domestic gas is a means to provide power in a more cost-effective, cleaner and sustainable way compared with the liquid fuel alternatives.

Helios acquired 100 percent ownership of Axxela through a series of transactions between 2016 and 2019. It is a leader in facilitating an efficient, more sustainable path to industrialisation in Nigeria by making energy more accessible and affordable for industries and operates the largest private sector gas distribution network in the country, delivering around 70 million standard cubic feet per day of gas to over 180 industrial and commercial customers.

Axxela is:

- **Building capacity:** Axxela's over 180 industrial customers employ over 50,000 people in industrial, skilled jobs
- **Powering communities:** Over 60 percent of the gas supplied by Axxela is used to power businesses, generating over 170 MW of power
- **Lowering costs and increasing reliability:** Gas has a significant cost advantage over heavy fuel oil, the most competitively priced alternative liquid fuel, and is a more reliable alternative than the grid
- **Replacing dirtier fuels:** As customers switch from liquid fuel sources (primarily diesel and heavy fuel oil) to gas, there is a positive impact on the environment. Customers switching from diesel to gas generation reduce CO2 emission by 32 percent on average and virtually eliminate sulphur oxide emissions

We went from being close to saturation in a small market to having a lower market share in a much larger market. That gives a lot more headroom to achieve greater scale than it ever could have done if it had remained just in Kenya.

Q Where are you seeing the greatest opportunities?

We buy or build market-leading businesses in core economic sectors of the key economies in Africa and leverage our portfolio operations ability as the primary creator of value. Those core sectors are the ones that are integrally linked to the functioning of the economy. Financial services – be they banks, asset managers or insurance companies – would be one example, but also fintech, where we own the largest electronic payments businesses in Nigeria and in Egypt. If you believe that those economies are going to grow, then it makes sense to invest in the key parts of them.

Q What else will be key to these economies?

Rental property targeting specific demographics is an area of interest. We see pockets of opportunity for students, young people and the elderly. In Kenya we are building Acorn Group to offer high quality, affordable rental accommodation to university students. But beyond students the lesson we have taken from Kenya is that when students experience this accommodation in university they do not want to step down in quality when they leave.

Student housing is attractive, but renters who are just entering the workforce are probably an even greater opportunity.

Telecoms and energy access are both really important. We pioneered the telecom infrastructure investment space in Africa, building Helios Towers, the first towers business in Africa – first in Nigeria and then in Ghana and in the Democratic Republic of the Congo as well – and that has spawned a very large industry.

Energy access matters because Africa is energy-starved. Many people still cook with kerosene and firewood or other biomass, and many industrial applications still rely on diesel and heavy fuel oils as their primary energy sources. All this is bad for health, for the environment, and expensive. In residential, commercial and industrial settings we can substitute high-priced, dirty fuels for cleaner and less expensive ones.

> *"You need to reinvent each and every element of the investing process from buying to building to selling"*

Q What opportunities does energy provide?

Axxela, a gas distribution business with intra-city pipelines distributing gas to industrial users in Nigeria, is a great example of the entrepreneurial, business-building approach that is vital in Africa.

We acquired Axxela in 2016 at a time when the Nigerian economy was in turmoil. The oil price had crashed and the country's badly judged currency management policies had created a massive disconnect between the official exchange rate and the true market rate – a spread of about 40 percent.

The seller, a local oil and gas conglomerate, was facing significant challenges in their business as a result.

They had a problem that they needed to address and they needed a reliable counterparty that could deal with the complexity of the transaction, in a complex environment at a complex time.

One impediment to the company's growth has been that demand outstrips supply, so customers fill the gap with diesel and other fuels. Developing alternative sources of supply is a priority for us. One solution is to import gas.

Not so long ago, LNG regasification facilities were the size of a city block. The minimum effective scale was huge and so were capital costs, making it prohibitively expensive in smaller emerging countries.

Now, innovation has shrunk the minimum effective scale so that you can site regasification facilities even within relatively small markets.

Regasification facilities can now be built on floating infrastructure. We are contemplating doing this in Lagos; buying liquefied natural gas from global markets, bringing it to floating docks in Lagos where it can be regasified and pushed through the Axxela grid.

By creating LNG access not only do we take advantage of the latent demand among our customers, but those customers have the confidence to keep investing in more and more facilities.

This is cleaner energy and it is less expensive. In the medium term, this is how you achieve growth in your customer base.

It also allows us to build virtual networks for new customers. When Axxela takes on a new customer it is hard to gauge how successful that new relationship is going to be, so investing capex building a pipeline extension to their premises right away would be a significant risk.

A lower risk approach would be to truck compressed gas from the LNG regasification site to the customer site. If the company goes under, Axxela simply cancels the trucks; if it thrives, we can build a pipeline.

We are doing something similar in Ghana and we see more opportunities for this. This could be done anywhere across the coast that has a shortage of gas.

Other private equity firms in Africa are not doing this, but it is a multi-billion-dollar opportunity. That is not to say it is easy. It requires deep sector expertise, control of some key assets and the trust of public sector players and regulators to know you will deliver.

In a market where charlatans exist, being known for saying what you will do and doing what you said is crucial. ■