KEYNOTE INTERVIEW

The Africa opportunity

Accelerating demographic and tech trends make Africa a strong investment proposition, says Helios Investment Partners' co-founder and managing partner Tope Lawani

Q How has covid-19 impacted your portfolio?

Helios Investment Partners' investment strategy is focused on identifying companies that are essential to allowing domestic economies to function, and they have all been permitted to continue operating during enforced business closures.

The portfolio is also highly diversified, generating revenues from over 30 different countries across the continent. That means sensitivity to localised confinement policies during this period has been diminished.

Over the past several years we have increased our investments in technology and technology-enabled businesses, for example in fintech and electronic payments. These are businesses that have proven to be well-positioned for the covid-era realities. We have also increased our investment in defensive businesses in the food and agricultural sectors. These have also performed well. And where, historically, we have had investments in oil and gas businesses that were exposed to commodity prices, our energy investments in recent years have been in midstream gas infrastructure businesses which serve industrial customers without exposure to commodity prices.

So overall we have weathered the situation well. There are one or two companies that have had challenges, but none where we believe value will be permanently impaired.

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Q What steps have you taken to preserve value during the pandemic?

At the outset we conducted a triage process to understand where the challenges lay. We assessed the strength of each portfolio company's balance sheet, cashflow and liquidity needs, and engaged with lenders, where necessary, to ensure all businesses were on a sound footing.

The next step involved preparing each company operationally for a potentially protracted, possibly permanent, reliance on remote working. We also assessed future prospects with zero-based budgeting and re-forecasts – adjusting pre-covid plans as necessary to mitigate risk and provide a solid foundation for the future. We then moved to assessing the opportunities that will undoubtedly emerge from covid-19. In each of the sectors where our companies operate, there are potential acquisition opportunities developing – interesting competitor businesses that were, perhaps, not as well prepared for the onset of the virus.

Q How is the pandemic affecting the underlying trends driving investment opportunities in Africa?

We invest behind two big trends: one is demographics and urbanisation, and the second is technology and innovation. The fact that Africa is relatively underdeveloped means there is less inertia in the system. There are fewer entrenched interests that prevent the adoption of innovation, which enhances the ability for newly developed technology and applications to gain traction.

That digitisation process has accelerated during lockdown as companies get to grips with the long-term trend of remote working. Equally, we are seeing the rise of the stay-at-home consumer, one who is shopping online rather than going to markets. Demand for telecoms, internet infrastructure and payment infrastructure are being accelerated by covid-19, which are areas where Helios has experience.

Q Which geographies do you view as particularly attractive right now?

We focus on identifying companies doing interesting things wherever they are situated. Having said that, we do see increased opportunities in Egypt and Morocco. Côte d'Ivoire also has an increasingly dynamic economy with strong links to the rest of Francophone West Africa, which make it interesting, notwithstanding possible near-term political uncertainty around the upcoming elections.

The two largest economies on the continent, Nigeria and South Africa, are particularly challenged at the moment. South Africa has public health and macro-economic challenges arising from covid-19. However, asset values there appear to be coming in line with prospects for the first time in a long time, so companies are available at prices that will probably overcompensate investors for the risks involved. Meanwhile, Nigeria has some structural imbalances around FX, but there are assets in the country that operate in a quasi-dollar environment. Again, it is all about identifying individual companies and supporting individual entrepreneurs rather than bets on countries.

Q What challenges are associated with investing in Africa and how can these be mitigated?

Economic cycles in Africa tend to be relatively short and shallow. That means that targeting cyclical businesses where you aim to invest in the trough of the cycle, create value through the upswing and sell before it turns again, is a challenging and risky proposition. That is why we back businesses with powerful underlying secular growth

Q How have Helios's portfolio companies reacted to the pandemic?

Helios's portfolio companies have been making efforts to support their communities. Among a raft of initiatives, telecommunications provider Telkom Kenya is providing free internet connectivity services and WiFi to Kenya's Ministry of Health and the National Emergency Response Committee on Coronavirus, as well as to Kenyatta National Hospital's infectious disease unit to help staff and patients stay in touch with loved ones, particularly during isolation. The company has also partnered with Loon, a subsidiary of Google's parent company Alphabet, to launch high-altitude balloons to improve internet connectivity in the country, where almost 70 percent of the population lives in rural or remote areas. Deployed in July 2020, the Loon service is expected to support covid-19 management strategies by connecting remote health clinics to other medical facilities.

Elsewhere, Nigerian gas distribution company Axxela has donated 5,000kg of medical oxygen to the Lagos state government and Vivo Energy, a pan-African fuel and lubricants retailer, has been supporting government efforts across the 23 countries in which it operates. This includes donating to local covid-19 funds and NGOs, providing fuel cards to ministries of health, as well as producing hand sanitiser at its plant in Mombasa, Kenya, and supporting e-learning applications for children during school closures.

characteristics that transcend economic cycles. Another challenge is that Africa remains a difficult operating environment. A private equity investor needs to bring significant operating expertise and resources to bear and to work in close, hands-on collaboration with portfolio company management. We do not believe you can be a passive investor in Africa. Companies need the right kind of support and framework to be able to perform at their best.

FX is clearly a significant challenge and it is an area where we spend a large amount of time. Our funds are dollar funds and our investors expect dollar returns, so FX certainly matters. But that is also true of dollar-denominated funds in Asia, Latin America or other emerging markets. We manage that risk first through investment selection. We try to find companies that have some kind of natural hedge built in. For example, companies providing goods or services that compete with hard currency alternatives, or companies that have the pricing power to pass adverse FX movements through. And, of course, there are a number of countries in Francophone West Africa where the currency is pegged to the euro.

Q What is your approach to ESG and how is that likely to be impacted by covid-19?

Our mission from the start has been to generate globally competitive investment returns at the same time as creating positive social and economic outcomes for the communities in which we invest. The only way to do that is by building profitable, value-creating and socially responsible businesses. We therefore weave environmental, social and governance considerations into every step of the investment process.

We also incorporate those considerations into the way we run our own business as we believe we need to be an example to our portfolio companies. Helios went through the rigorous process of becoming B-Corps certified [a certification from B Lab that recognises a firm's commitment to certain social and environmental standards]. More than half our waste is recycled. More than 80 percent of our energy comes from renewable sources and we offset 100 percent of our air travel carbon footprint. The paper in our printers is made from sugar cane waste. We are not perfect, of course. It is a journey. But we have a commitment to responsible investment that pre-dated covid-19 and will outlast it.

"Growth… is being driven by demographics and by technology and innovation"

Q What makes Africa an exciting investment proposition?

It is commonly observed that many of the fastest growing economies in the world are in Africa, but I do not think that is the salient point. What is most significant is the nature of that growth, which is being driven by demographics and by technology and innovation. Developed countries are seeing a precipitous decline in birth rates which is going to create global labour imbalances, whereas Africa has a youthful population and growing labour force.

We are seeing a lot of migration where people are gaining employment in different parts of the world while remaining connected to their home country. Remittances are rising dramatically. People are working abroad and then sending money home, which is another engine of long-term growth. For example, it is commonly believed that Nigeria's largest export is oil, but it actually earns more through remittances.

That makes Africa very different to developed markets, where growth is stimulated through monetary policy rather than reflecting fundamental demand growth. Africa has that demand growth, but at the same time, there is far less capital chasing the opportunities presented. The juxtaposition of strong trends creating secular growth opportunities, without the commensurate excess capital flows, creates an exciting investment proposition.

Q What does the future hold for African private equity and what are Helios's plans?

We recently announced a tie-up with Fairfax Africa, an investment holding company. This transaction has not yet closed and remains subject to various approvals, including a vote by Fairfax shareholders. It will see Helios Investment Partners become an investment advisor to the Helios Fairfax Partners entity, in the same way we can act as advisors to our private equity funds.

We believe the opportunities for private capital in Africa are going to be very significant. To accelerate our ability to take advantage of those opportunities, we felt it would be helpful to have access to permanent capital. We can use that capital to seed new strategies and make strategic acquisitions to expand into new product areas.

We see the future of alternative investment in Africa as being consolidated. Investors will increasingly look to back teams that operate to world-class standards. Similarly, we believe African companies and entrepreneurs are interested in a one-stop shop where flexible and creative capital solutions can be provided. They come to us as creative problem solvers and our plan is to expand our toolkit so that we can meet more of those needs – provided, of course, they present attractive investment opportunities.

That will create a virtuous cycle where we see more investment opportunities, gain greater market intelligence and broaden and deepen our networks, all of which will contribute to making better investments. ■