Private equity explores the sub-Sahara

By Kate Burgess in London, Financial Times
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Private equity is attracting international investors to sub-Saharan Africa as never before, with fund after fund being launched to look for opportunities beyond South Africa.

Some funds are concentrating on the more developed markets, such as Nigeria. Others on sectors such as natural resources.

Miles Morland, the veteran who started up Blakeney Management to invest in Africa's stock markets in the early 1990s, is launching a private equity fund investing in what he calls "post-conflict" Africa. This comprises economies such as Angola, Ethiopia and Mozambique, all at an early stage of economic development. These are the fastest-growing economies in Africa, said Mr Morland.

The new fund, Development Partners International, will be staffed by Africans and headed by Runa Alam, formerly of rival private equity firm Kingdom Zephyr. It will seek out wrongly-priced securities in inefficient markets. Mr Morland, who will be chairman, hopes to raise up to $500m.

The formula echoes that of Blakeney, Mr Morland's first African investment venture. But this time the new fund will invest in unlisted companies and take board seats. But for most investors, post-conflict markets are too illiquid, too risky and too small.

Helios, a private equity firm set up in 2004 by former principles of Texas Pacific Group, the US private equity group, now manages more than $500m. It has a preference for big companies.

"Scale matters," said Tope Lawani, the Nigerian-born managing director of Helios. "The larger the business, the easier it is to sell on."

Helios has a bias to Nigeria and takes a hands-on approach, advising companies on strategy and its execution as well as human resources. It targets secular rather than cyclical growth. "There are big opportunities for companies solving problems for the mass market," he said.

Take the hotel industry in Africa, where the network of budget hotels is limited. It also targets financials and is a significant investor in the Nigerian bank First City Monument.

Financial services are attracting other investors. Satya, the private equity fund backed by Mo Ibrahim, the Sudanese telecoms tycoon, focuses on sectors, identifying three or four companies a year that have pan-African potential and helping them develop.

The fund raised $200m in May but intends to increase that to $600m within a year, says Tsega Gebreyes, managing partner. Most of it will be invested in private companies, but Satya may buy stakes in publicly listed companies. "The field becomes very narrow if you focus too much on private equity. Most funds in Africa will take a bit of both," said Ms Gebreyes.