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AFRICA GLOBAL FUNDS

IMPACT INVESTING

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COMMENT:
THE MOVE OF PRIVATE EQUITY FROM WEST TO EAST AFRICA

Focus on Agri-food

AGF catches up with Vincent Destieu, Deal Principal, Phatisa, to discuss new office in Abidjan and trends in agri-food in sub-Saharan Africa

Vincent Destieu,
Deal Principal
Phatisa

AGF: WHY DID YOU DECIDE TO OPEN A NEW OFFICE IN ABIDJAN?

VINCENT DESTIEU (VD): Phatisa is Mauritius domiciled fund manager and opening a new office in Abidjan is the logical next step in our pan-African growth after setting up offices in Johannesburg, Lusaka and Nairobi.

We are already present in Côte d'Ivoire through our investment in CBC, one of the leaders in mineral water with its "Olgane" brand.

We want to strengthen our investments in Côte d'Ivoire as well as in West Africa, and we see being physically present in the region as a prerequisite. The office will have a regional remit, ranging from Senegal to Cameroon.

Until recently, investments and the "Africa Rising" story focused on English-speaking Africa, notably South Africa, Nigeria and Kenya. West African countries are now catching up, particularly French-speaking countries.

AGF: WHAT ARE THE BIG TRENDS IN AGRI-FOOD IN SUB-SAHARAN AFRICA AND WHICH ARE THE MOST DYNAMIC COUNTRIES AND SECTORS?

VD: The sub-Saharan African agri-food business could develop into a 1,000-billion-dollar industry by 2030, according to the World Bank. The sector stands to benefit from two concurrent growth drivers – continental and global.

The major continental trends are well known: accelerated demographic growth (the continent will account for 50% of world population growth by 2050); technological progress leading to a new green revolution; and rapid urbanization (current average of 37% versus 54% worldwide; urban food markets are set to quadruple by 2030).

Broadly speaking, in a strategy anticipating an increasing scarcity of resources and food security, Africa – together with Latin America – is recognised as having the greatest potential in terms of food production to meet the exponential needs of the world's population.

These trends imply significant agri-food investments in the following sectors: processing, logistics, market infrastructure and distribution networks.

Africa's fast-growing middle class is keen for greater food diversity and quality. The sectors benefiting from this new local consumption are rice, cereals, poultry, vegetable oils and processed products as substitutes for imports. For exports, I see cocoa, rubber and palm oil as the most favourable segments. Phatisa is investing heavily in 'agri-inputs': farm equipment, mechanisation, fertilisers and crop protection products, in response to the very low yields and very low level of use of modern inputs in Africa.

It is worth noting that the private sector is showing unprecedented interest: in addition to players with a long-standing presence in Africa (LDC, Nestlé, SABMiller, etc.), global sector leaders, ranging from Danone to Bunge, Ajinomoto and Heineken, are developing strategic investments. Investors are looking for vertical integration models, working with local farming communities.

I would like to stress that, in 2017, nine of the 20 most dynamic economies in the world will be in Africa. Today, the most attractive countries for the agri-food industry are Côte d'Ivoire, Ghana and Senegal in West Africa, Kenya and Tanzania on the East Coast and South Africa and Zambia in southern Africa.

AGF: WHAT ARE THE MAIN RISKS OF INVESTING IN SUB-SAHARAN AFRICA, AND HOW CAN THEY BE MANAGED?

VD: Investors and groups in the region primarily cite the following challenges: inadequate infrastructure and substantial transport costs, the double burden of red tape and corruption, and the lack of skills in the field.

Apart from the cyclical nature and volatility inherent in some of

TAKING A CLOSER LOOK AT PHATISA'S LATEST INVESTMENT – KANU EQUIPMENT

the sector's activities, I would emphasise three main risks: political instability, inefficient supply chains and currency risk.

In my view, the political risk is generally exaggerated. There is a real gap between perceived risk and reality, due to lack of experience and local knowledge. Sub-Saharan Africa has never appeared so stable, not only by past standards but also when compared with tensions in other emerging regions. Decision-makers in European companies must take this into account in their analyses.

That said, two other risks are clearly underestimated.

The currency risk is twofold: the first risk, that of a rapid depreciation of the local currency, is clear; the second, less obvious when seen from the perspective of a mature environment, is the virtual impossibility of changing the local currency into international currencies (EUR/US$) and repatriating cash flows. A double blow of profits/cash frozen in a local currency that depreciates significantly, and there is nothing one can do about it. Angola, Mozambique and Nigeria are current examples of the difficulties related to currency, its volatility and its liquidity.

Finally, the supply chain risk: the challenge here lies in the absence of the supply chain structures to which European operators are accustomed. You cannot simply rely on external, formalised supply chains. The lack of sophistication of most markets, both upstream and downstream, requires an inclusive approach.

Some ways of reducing these risks: invest in countries with a more diversified economy and more stable currency (CFA franc, shilling, etc.); select target businesses with multi-country and/or multi-segment operations; invest with partners; invest in the appropriate supply chain for your production capacity; set up hiring programmes and train the talent required to ensure that the project is sustainable.

AGF: WHAT ADVICE WOULD YOU GIVE TO AN INTERNATIONAL AGRI-FOOD COMPANY KEEN TO SET UP IN AFRICA?

VD: In a nutshell: think long term, be patient and persistent and team up with players with local experience. A recent example: Heineken in Côte d'Ivoire. Heineken entered into a joint venture with CFAO (which has been present in West Africa for more than a century) to build a brewery in Abidjan (€150m investment) and challenge Castel's monopoly.

In conclusion, I would say that Africa must be on the development agenda of any ambitious European company, for its potential in terms of markets, human and agricultural resources as well as for its proximity to Europe. The geographical, historical and cultural proximity of some countries make them choice destinations for European leaders.

Phatisa is present in more than 15 countries in sub-Saharan Africa and has extensive experience in working with strategic European and African partners on acquisition and co-investment projects.

COMPANY: Kanu Equipment (Kanu), previously trading as Torre Equipment Africa
INITIAL INVESTMENT: June 2016
FOLLOW-ON INVESTMENT: 30 June 2017
INVESTOR SHAREHOLDING: Significant majority
TYPE OF INVESTMENT: Buy and build, growth/expansion
SECTOR: Heavy-equipment supplier into agriculture, mining and construction sectors
COUNTRIES: Congo, Cameroon, Côte d'Ivoire, Ghana, Sierra Leone, Liberia, Guinea, Zimbabwe, Botswana, Tanzania and Kenya
EMPLOYEES: 302 (December 2016)

INVESTMENT IMPACT HIGHLIGHTS

Phatisa invested into Kanu alongside two equity holders: the management team; and the JSE-listed Torre Industries (Torre), who acquired control of Kanu Equipment in early 2014. As recently as end June 2017, Phatisa reached an agreement with Torre, whereby Phatisa and Kanu management bought Torre's remaining shareholding in Kanu.

THE COMPANY AS AN INVESTMENT OPPORTUNITY

Kanu is a leading African heavy-equipment supplier, committed to providing best-quality, purpose-fit equipment for the continent by providing finance options, quality maintenance and on-the-ground service teams with spare-part availability.

The business has achieved impressive year-on-year growth since 2011 and has grown from operating in one market (Congo - Brazzaville) to now having operations across 11 markets in West, Central, East and Southern Africa. Kanu is now one of the largest Liebherr and Bell Equipment dealerships in Africa.

This deal shows how private equity can provide valuable insight and support to a listed company, thus enabling the management team to deliver an expansion of the business into new markets. Kanu has an outstanding executive team with ambitious plans for both organic growth and growth by acquisition. Phatisa's role is to support these expansion plans while working closely with the management to help them navigate the obstacles they will face along the way.

THE IMPACT OF THE PRIVATE EQUITY PARTNERSHIP

Setting the bar for environmental, social and governance (ESG) policies and procedures

Following Phatisa's evaluation of ESG risk factors during a due diligence process, a comprehensive social and environmental management system has been reviewed and is being implemented across all operations, including specifically the best practice health and safety and labour practices of the ILO, OHSAS 18001, ISO 14001, IFC Performance Standards, legal and permit requirements. Further policies and procedures around the environment (pollution prevention and reduction), human resources, and associated procedures are currently being completed.

ONGOING IMPACT INITIATIVE

Kanu, with the support of Phatisa, is currently in the scoping phase for a micro-entrepreneur-led initiative. The Hummingbird Project, to expand Kanu's spare parts distribution channel across the continent, assesses the feasibility and potential impact on micro-entrepreneur incomes and job creation, factors that play a huge role in inclusive growth.