Phatisa: 'Over five years African agribusiness has grown substantially'

by Clare Pennington on 5 JULY 2016 in Commentary, Q&A

African private equity firm Phatisa has now deployed about 75 percent of its $246 million sub-Saharan focused African Agriculture Fund, with investments including a palm oil plantation and processing mill, and a fertiliser manufacturer. We caught up with joint managing partner Duncan Owen to ask how his firm's strategy as well as food and agribusiness investment is changing across the African continent.

How has the investment environment in Africa developed since launching AAF?

When we first started the AAF in 2010, there were few trade buyers in the agriculture and fast-moving consumer-goods food businesses. Interest in primary agriculture was limited and South African FMCG corporates were cautious about investing in Africa. Phatisa largely did not find competition in its deals.

Over the last five years the agribusiness asset class has grown substantially. The market is much more competitive, creating a good environment to sell. Exit opportunities have significantly increased with trade players, IPOs and secondaries to private equity firms.

What kind of exit strategies are you planning for?

Phatisa's AAF portfolio averages two-and-a-half to three-year investments, which is a relatively short investment period. The first prize for Phatisa is an IPO, where the seller maximises the arbitrage on the exit-versus-entry multiple, giving the highest return. However, one needs critical mass. A $20 million EBITDA is a guide for the minimum number required to exit via IPO.

If we cannot build a business that provides such critical mass, our next option is a global or regional trade buyer, who will price at a discount to his own price earnings multiple in the stock market, so that his earnings are not diluted. Trade players like acquiring from private equity firms as their managers tend to do the heavy lifting around ESG, corporatisation and succession planning. The third option is a secondaries exit, where buyers tend not to over-pay unless it is a competitive bid process involving multiple private equity firms wanting to invest in a highly attractive business in an African engine economy, such as Kenya, Nigeria, South Africa and Egypt.

Phatisa acquired its second investment, Goldenlay in Zambia, from Aureos [now Abraaj] and we see more and more opportunities for exiting through other firms. While there has been a marked increase in African private equity funds and funding, very few firms are focused on primary agriculture, in comparison with the FMCG-food sector.

How do you see investment in African farmland as oppose to agribusiness?

Phatisa does not invest in farmland as an asset class. We only invest in land … needed for the production of specific products. A different investment model is needed for investment in farmland and primary agricultural production with patient capital, such as a permanent vehicle for primary agriculture. We foresee that there will be a move towards development finance institutions supporting permanent capital vehicles, with lower return expectations and patient investors. This would provide some risk mitigation.

Africa's food and beverage markets are projected to be worth $1,000 billion by 2030 and offer the prospect of a three-fold increase, greater prosperity and significantly more opportunity for African farmers to compete globally.

Private equity investment into Africa is seeing strong growth. It remains to be proven whether this will be reflected in the agri sector. However, private equity is playing a huge role in the FMCG and food value chain, and will for the foreseeable future. There is ample opportunity to invest in relatively early stage investments, where private equity firms can lend governance support, … grow businesses financially and present them to corporate FMCG companies as an exit play.

Q&A

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Managing partner Duncan Owen says that significant investment in food and processing will help growth at the African farm gate, and that as interest increases more exits are becoming available.

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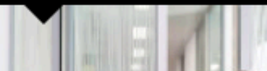

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