Sub-Saharan Africa Shakes Off the Dust
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Among several theories, the name “Africa” is said to have originated from the Phoenician word “Afer” meaning dust. Not a very auspicious start (c. 1000 BC) for the planet’s second largest continent.

More recently, in the 19th century, explorers like Henry Morton Stanley referred to Africa as the “Dark Continent”, because of its mysteriousness to Europeans. Joseph Conrad immortalised the European concept of Africa’s impenetrability in The Heart of Darkness. Another famous explorer, David Livingstone, “discovered” the Victoria Falls and other landmarks in Central Africa in the 1850s, with little credit given to Arab traders and travellers who had arrived centuries before, to say nothing of the local residents who dated back to the beginning of human time.

This characterisation of Africa is receding – albeit slowly. Even now people casually talk of “visiting Africa”, overlooking that this huge mass of land is home to more than 50 countries of vast diversity, spanning both sides of the equator.

Moving Up the Growth Charts

In the last decade the continent has started to emerge. Since 2001, sub-Saharan Africa (SSA) has shot up global growth charts, averaging real GDP expansion of more than 5% a year. As importantly, inflation, the poor man’s curse, plummeted from 25% to just 6% last year. Yet another impressive improvement was the decline in the external debt ratio from 60% to 25%. African countries also issued more than US$30 billion in sovereign bonds last year, with more to come.

Who would have thought that Rwanda, torn apart by civil war in the early 1990s, would succeed in issuing a Eurobond of US$400 million at a yield below 7% last year? Currently, there are 10 SSA countries (apart from South Africa) listed in JP Morgan’s Global Emerging Markets Bond Index.

Superior growth on the sub-continent is becoming increasingly self-sustaining. Over the past decade the ratio of gross fixed investment to GDP has risen steadily to a high of 24% last year, several points above that of South Africa. What’s more, the savings rate is 21% versus just 15% for South Africa. The investment-savings gap of around 3% is not excessive for a region in the lift-off phase of economic development. While the SSA investment rate may not be as high as some high-flying Asian nations, it certainly matches some of the more successful Latin American countries, like Colombia and Chile, and is several points ahead of Brazil, a serial disappointment.

Some SSA countries have experienced even more spectacular growth. The run rates for the Democratic Republic of the Congo (DRC), Ethiopia, Mozambique and Tanzania are north of 7%, while Nigeria, Uganda and Zambia are in excess of 6%. Nigeria has just made headlines with its eye-popping recalculation of GDP. With an apparent stroke of a statistical pen, Nigerian output was revised up 89% to US$509 billion for 2013, leaving it far above South Africa’s approximately US$370 billion. Of course, there are more than three times as many people in Nigeria but it made the point. In similar fashion, Ghana raised its GDP estimate by 60% in 2010. It’s not that statisticians have miraculously discovered new pockets of economic endeavour. Activity in much of Africa is simply under-recorded: for example, in...
telecommunications, banking, street trading and agriculture. Most are still desperately poor but the pie is bigger than previously believed and growing rapidly. Small wonder that an expanding list of South African companies is eyeing future profits beyond our borders.

Yet, before we get too upbeat, SSA is by no means on a flawless path to middle-income status. Its share of global GDP is still only 2.6%, while it accommodates 14% of the planet’s population, most of whom live in poverty. SSA’s population is forecast to double to 1.8 billion by 2050, according to the Population Reference Bureau. The forecast for Nigeria is a staggering 440 million; DRC 182 million and Ethiopia 178 million. If accurate, the sum of these three alone will far exceed Europe’s population, where the numbers will likely decline. The forecast for South Africa is just 64 million.

Population Explosion Offers Mixed Blessings

Accompanying this explosion will be rapid urbanisation. Most of SSA’s countries are well under 50% urbanised, compared to 60% for South Africa and 80% for the UK. While the population of SSA may double by 2050, the urban population could treble. This would be on an even greater scale than China’s urbanisation since Deng Xiao Ping’s reforms from the late 1970s. It seems that the powerful allure of the “bright city lights” alluded to by development economists for the past two generations is undiminished. If you think SSA’s cities are chaotic now, you ain’t seen nothing yet.

This combination is a mixed blessing. On the plus side, the “demographic dividend” of population growth and urbanisation could be huge. A rapidly growing labour force underpins growth if blended with sufficient technology, infrastructure and education. This requires sustained high rates of savings and good governance. The negative take is that SSA could crumble under the weight of so many mouths to feed. The jury is out as to whether a successful cocktail can be concocted. Governance has certainly improved across SSA but has a long way to go and unfortunately many SSA countries still languish in the bottom half of Transparency International’s Global Corruption Barometer. However, a big positive has been the successful power handover through the ballot box in Nigeria, Ghana and Kenya (inter alia) in recent years.

Furthermore, there is still low-hanging fruit. For example, when it comes to road, rail and airport links, only a tiny handful of SSA countries even marginally match South Africa’s capacity. In most, facilities per square kilometre are less than 25% of South Africa’s, itself by no means a world leader. Ask any South African business person about the logistics of business in SSA and you will be met with a frown. But this is slowly changing. Nothing exemplifies this better than the recent China-Kenya deal to build a rail link from Mombasa to Nairobi for about US$4 billion, slated to drop rail freight costs by 60%. If only South Africa could make such a leap forward in its transport infrastructure.

Exciting Potential for Equities

For equity investing in SSA, opportunities are limited, but the potential great. Total stock market capitalisation on the continent is around US$850 billion. South Africa alone comprises over 70% and North African markets, Egypt, Morocco and Tunisia another 15%. In SSA, only Nigeria, Kenya and Zimbabwe offer any kind of size – but liquidity is a real problem. There is also a range of JSE-listed stocks with varying degrees of SSA business, including MTN, Tiger Brands, some banks, Imperial, Barlows, Shoprite, PPC and Nampak.

So far the African promise on the JSE is somewhat overhyped, but consumer spending, logistics and mining in SSA are set to expand exponentially. At 6% growth, output doubles in 12 years, but many good companies operating in Africa could far exceed that as they bring expertise and technology to bear. In addition, SSA’s share of South African exports has risen sharply in recent years from around 14% in the early 2000s to more than 19%.

The Phoenicians are not the only possible source for the naming of the continent. The Greek “Aphrike” meaning without cold and Latin “Aprica” meaning sunny are also in the frame. It seems that for now at least the African dust is clearing and the pace of expansion is hotting up.
Glacier Research would like to thank Graham Bell for his contribution to this week’s Funds on Friday.

Qualifications:

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Graham joined Old Mutual Investment Group in January 2013 as a Strategist. As a member of the Old Mutual Equities team, he is responsible for investment strategy and asset allocation.

Prior to joining Old Mutual Equities, he was the strategist for overall asset allocation at Investec Securities, and headed SA Equities and Country Risk at Standard Bank in London.

Graham has 34 years of work experience in economics and financial analysis.