



Emerging Markets

African Stock Safari

Parmy Olson 10.19.07, 12:30 PM ET

A desolate continent home to the world's 30 poorest countries, many mired by famine, and all rarely in the business pages. Why invest in Africa? For the same reason many are already rushing to tap into Brazil, Russia, India and China: It's growing, and it's undervalued.

Africa's stock markets outperformed world averages in 2006, the stocks trade at half the levels of their Western counterparts, and increasing foreign direct investment from countries like the Netherlands, Russia, India and "new best friend" China mean African companies are finding it easier to raise money.

Sub-Saharan African countries, currently the most promising, grew by 6% in 2006 for the third year in a row, riding largely on the strength of commodity prices. If you don't count the boom in India and China, the sub-Sahara is growing faster than most of Asia.

The region has also shown almost complete immunity to the credit crunch rocking the rest of the world's financial markets. "We have no exposure to the subprime market all," said Peter Wharton-Hood, chief executive of personal and business banking at South Africa's Standard Bank.

Institutional investors are taking notice. Money manager Robert Levitt controls a \$425 million portfolio of investments for Boca Raton, Fla.-based Levitt Capital Management. He believes Africa's prospects have changed dramatically in the last few decades. African companies make up about 6% of his portfolio.

"There tends to be a focus on the BRIC countries [Brazil, Russia, India and China] as the only economies that are growing and expanding. But Africa is an example of one of the other places that is changing," said Levitt. "Africa is one of the last bastions of natural resources, and as long as Africa has them, there's going to be money coming in."

Given that the continent produces nearly 30% of the world's gold, half the world's diamonds, and half of the world's platinum, it's no surprise that 13% of Africa's exports now go to rapidly-industrializing China. "As money goes in from Chinese and Indian companies, it helps the economy in general," Levitt said. "The Chinese are putting a lot of money into Nigeria, for instance."

Nigeria has huge oil reserves, while the Democratic Republic of Congo and Zambia, where there is a high concentration of copper in the rocks, are big in mining, and South Africa is spitting out platinum and gold.

The continent is extremely diverse and should be approached carefully. When deciding how to expand itself beyond its current presence in 17 African countries, South Africa's Standard Bank refused to speak of one set strategy. "Different geographies offer different economic potential," said Wharton-Hood.

For retail investors in the West, opportunities are also limited, and investing is risky, since political instability in certain nations means companies can be seized by governments or their markets thrown into chaos, although more than 60% of countries are now functioning democracies.

In a resource-rich nation, huge swings in weather patterns can also affect output. And there are still not too many brokers out there who, like Levitt, are willing to touch African stocks. A good place to start: mutual funds with holdings in Africa, like the Orbis Africa Equity Fund or Investec's Pan Africa Fund.

There are also African companies that issue American depositary receipts (ADRs), which means they are traded on American exchanges like the New York Stock Exchange. ADRs can be bought through the Bank of New York's Global Buy Direct program--most investors are eligible to enroll--or through a broker.

There are currently 53 African ADRs, according to the Bank of New York Mellon, though not all of them are accessible to retail investors. The easiest ones to access are mining companies like South Africa's AngloGold. Its stock has nearly doubled in the last five years. Rival Gold Fields has seen similar growth.

Most of Levitt's stock picks are ADR companies based in either Nigeria or South Africa. The latter nation accounts for a quarter of Africa's GDP.

Forestry and paper company Sappi, based in Johannesburg, has seen its shares rise 50% in the last five years, and South African telecommunications company Telkom has seen its stock soar a whopping 1,300% in the same time period.

It's still worth keeping an eye on the companies that don't have ADRs, since circumstances can change. For his part, Levitt is able to purchase African stocks that don't have ADRs through local brokers whom he meets face-to-face on his travels there.

Levitt's visits to Nigeria and Zambia have also revealed promising signs of entrepreneurialism. "I was initially told Nigeria was dangerous, that people there would rob you," he said. But the reality on his first trip was far from that, and when Levitt asked people on the street what they thought about their future, they spoke of education, becoming entrepreneurs, and investing in the Nigerian stock exchange.

Nigeria's 419 e-mail scams thus seem rather an unfortunate blight on the country's reputation, considering it has privatized much of its economy, and its regulators have been modeled on the U.S. Securities and Exchange Commission.

South Africa also belies the image of African disarray. "Probably the best financial systems of any emerging market are in South Africa," said Jan Randolph, head of sovereign risk at Global Insight. "Their banks are as good as ours, and their capital markets are as developed as anywhere else in the West, or Japan."

One booming industry: cellphones. "The social changes taking place in Africa mean there is increased demand for wireless services," said Nomura's emerging market analyst Richard Ferguson. Cell phone use in Africa is growing faster than anywhere else in the world, according to a 2005 study by the Centre for Economic Policy Research.

"In Tanzania, everyone is looking for a mobile, certainly in the cities," said Randolph. That's because mobile phones are fast becoming a vital economic tool. Fishermen on Lake Tanzania and farmers in Senegal use a trading system available on their cell phones to help maximize fish and crop prices. Wireless giants like Vodafone, Entesalat and China Mobile are all trying to tap into the demand now.

Investing in Africa takes careful thought and research, but the results can be rewarding. Levitt's stock picks can give ideas of where some of the growth is happening: namely in telecommunications and financials, and in the countries of Nigeria and South Africa.

But watch for the rest of the continent to become more open to investment. A recent report by the World Bank showed Egypt topped the list of countries that were reforming themselves to make it easier to do business. Ghana and Kenya are also in the top 10. The rankings also showed that 56% of African countries made at least one positive reform in the last year, beating statistics from East Asia (46%) and Latin America (36%).

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MTN Group

South African cellular phone company provides phone services to more than 40 million subscribers in Africa and the Middle East, though about half are in South Africa and a third in Nigeria. **MTN Group** (other-otc: [MTNOY](#) - [news](#) - [people](#)) was cited as one of Forbes.com's "exotic growth bargains" in 2005. Since then, the stock has more than doubled to around \$17. Its American Depositary Receipts, which are 1:1, can be bought through the Bank of New York or a broker.

Murray & Roberts Engineering Holdings

This South African construction company has annual sales of \$1.4 billion and a market capitalization of \$4.4 billion. In early October the American fund manager Capital Group Companies bought 15.8% of the company. **Murray & Roberts** (nasdaq: [MURSF](#) - [news](#) - [people](#)) shares have risen more than 180% in the last year, but they only trade in Johannesburg.

Standard Bank Group

The South African lender operates in 17 African countries and provides banking, insurance broking, mutual fund management, and property fund management services. Levitt recently hired a portfolio manager from **Standard Bank** (other-otc: [SBGOF](#) - [news](#) - [people](#)) to work for him in Florida. It has ADRs and trades primarily in Johannesburg. The shares have risen 366% since 2002.

Naspers

Based in Cape Town, this media company operates primarily in South Africa and sub-Saharan Africa, but also does business in Asia, Europe, and North and South America. **Naspers** (other-otc: [NPSNY](#) - [news](#) - [people](#)) produces newspapers, but its Internet division, which includes instant messaging in China, generates the bulk of sales. The company has ADRs and the stock is up 19% since year to date.

Guaranty Trust Bank

A Nigerian financial institution for which Fitch Ratings upgraded its outlook to "positive" from "stable" in August, citing its growing franchise and enhanced earnings capacity. The company also has a global depository receipts (GDRs) listed in London under the symbol GRTB LI, and its local symbol is GRTB NL.

United Bank For Africa

The largest financial services company in Nigeria and West Africa trades on Nigerian Stock Exchange and also through an unlisted GDRs program currently administered by the Bank of New York. It merged with South Africa's Standard Trust Bank in August 2005 and sales have risen 350% since then.

Zenith Bank

This is Levitt's third and final Nigerian financial institution, offering deposit and fund transfer services, trade finance and foreign exchange payments. The company is the most capitalized on the Nigerian stock exchange and works with JPMorgan to act as global custodian for Nigeria's foreign reserves of \$46.7 billion. Profits rose 24.1% in 2006. The local symbol is ZNBK NL.

Orascom Construction Industries

Cairo-based **Orascom Construction** (other-otc: [ORSDF](#) - [news](#) - [people](#)) is a leading cement maker and construction contractor in North Africa, the Middle East, and Central Asia. It takes advantage of the low cost of natural gas in Egypt for producing cement and fertilizer. It has ADRs and an active London listing under the symbol ORSD LI. Its London shares have risen more than 9,000% since October 2002.

First Quantum Minerals

First Quantum (other-otc: [FQVLF](#) - [news](#) - [people](#)) is a copper company with operations primarily in Zambia and the Democratic Republic of Congo. The primary market is Canada, though it does have ADRs and is also traded in London under FQM LN. Its shares on the Toronto Stock Exchange have nearly doubled year to date.

Ridge Mining

This London-listed mining company has operations in South Africa, and has also seen its shares double since January 2007. **Ridge Mining** (other-otc: [RDGMF](#) - [news](#) - [people](#)) has substantial equity investments and assistance from Chinese companies. The stock trades primarily in London, though it also has ADRs.