Historical connections
Trade links between Africa and the Middle East are deep rooted and historically significant. From the Middle East traders who brought Islam to North Africa to modern day political and economic support and trading of agricultural, natural resources and hydro carbon products, the ties between the regions have grown ever stronger.

Investors from the Middle East region are increasingly recognizing the significant opportunities that Africa offers for investors. In this article we explore the key investment themes and opportunities that are driving this and some of the challenges to be considered.

Leading global economic growth rates

“The great explosion in private equity, if it is going to occur anywhere around the world in the next couple of years, is probably going to be in Africa, particularly sub-Saharan Africa, where the penetration rate is about one-twelfth or so of what it is in the United States.” David Rubenstein, CEO of The Carlyle Group US-Africa Leaders Summit, Washington DC, August 2014.
Sub-Saharan Africa is forecast to record the highest GDP growth rate between 2014 and 2018 at 4.8%. Strong GDP growth is anticipated to be underpinned by the rise of the Middle Class, population growth, the dominance of youth, rapid urbanization and the fast adoption of digital technologies.

In addition to higher forecast African population growth when compared to the rest of the World, a significant portion of the population is anticipated to enter the middle classes. Indeed, by 2030 over half a billion Africans are projected to be Middle Class. While these numbers are very impressive, it should be noted that 60 per cent of those considered Middle Class today live on c. $4 dollars/day, though their relative purchasing power is significant.

More than 200 million Africans (20 per cent of the total population) are aged between 15 and 24, and that demographic is expected to grow to c. 320 million by 2030. These younger Africans form a large share of the rising Middle Class and seek to access a wider choice of food, consumer goods, entertainment and increased connectivity.

In addition to the growth in population and consumerism, Africa is increasingly concentrating in large urban areas which permit an increase in the speed of economic development and the spreading of the costs of infrastructure over a larger number of inhabitants. Major urban areas are predicted to link up populations and create sizable markets and trade opportunities. The fast adoption of digital and mobile technologies has also allowed Africa, in certain instances (e.g. banking) to leapfrog historically poor infrastructure investment.

Alongside the anticipated consumer led economic growth described above, hydrocarbon deposits and the benefits of other extractive industries have been and will continue to be a significant source of income for these countries.

Investors positioning to take advantage

The opportunities that these economic developments present to investors are significant and in recent years both international corporations and private equity have been actively acquiring in sectors beyond the traditional Energy & Resources sector. Indeed, in the period between 2012 to the end of 2014 Africa Focused funds, such as Private Equity and Infrastructure have raised in excess of $10bn with some of these investors originating from the Middle East.

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Final Close</th>
<th>Fund Sector</th>
<th>Regional Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helios Investors III</td>
<td>1,100</td>
<td>Generalist</td>
<td>Pan-African</td>
</tr>
<tr>
<td>Abraaj Africa Fund III</td>
<td>990</td>
<td>Consumer</td>
<td>Sub-Saharan</td>
</tr>
<tr>
<td>DPI ADP II Fund</td>
<td>725</td>
<td>Consumer</td>
<td>African</td>
</tr>
<tr>
<td>Carlyle Sub-Saharan Africa Fund</td>
<td>698</td>
<td>Generalist</td>
<td>Sub-Saharan</td>
</tr>
<tr>
<td>Amethis Finance Fund</td>
<td>530</td>
<td>Generalist</td>
<td>Pan African</td>
</tr>
<tr>
<td>LeapFrog Fund II</td>
<td>400</td>
<td>Financials</td>
<td>Pan-African</td>
</tr>
</tbody>
</table>

These investors are targeting sectors that will directly benefit from the rise in Middle Class population and demographic movements. In particular, international corporations have successfully acquired in the food stuffs, retail and other consumer staple and consumer discretionary categories.

The growth in consumerism will lead to an increase in the need for innovative financing solutions and connectivity to access them. Quality assets within the Financial Services and Telecommunications sectors are also attracting foreign investors.

Closer to home, car dealership chains and automotive franchises are of particular interest to Middle East investors, leveraging the existing relationships that these groups have from their existing businesses.

Not without its challenges

Although the opportunity and potential investment return is high, key challenges are faced when executing MBA activity in Africa. From political instability, to historical under-investment in infrastructure and humanitarian disasters such as the Ebola outbreak, investors need to carry out significant due diligence on both the external market and competitive landscape of a target business, which includes reviewing the historical and forecast financial and commercial performance. Moreover, as with Middle East countries, ownership regulations and the importance of choosing the right partner also need to be carefully considered and integrity Due Diligence carried out on new business partners. Three key areas to keep in mind are as follows:

1. Financial disclosure and Due Diligence
   Generally, there is limited financial disclosure, both...
for listed and unlisted companies operating in the region, which means that access to valid, accurate, complete and reliable financial information can fall short of investor expectations. The lack of certain information makes it essential that an extensive diligence process be followed with an experienced advisor.

2. Local Ownership requirements
Many countries have adopted, or are in the process of adopting citizen empowerment laws, which typically require a minimum percentage of local shareholder ownership. The challenge though is that local shareholders are often unable to raise required funds especially in capital-intensive projects and are seeking international backers.

3. The Right Partner
While this is important in transactions, it is especially critical when the local partner is relied upon to drive local relationships. Deficiency of suitable local partners may act as an obstacle for investors or, worse, result in under-performance from a poorly executed investment.

Conclusion
With the combined African economy expected to grow at double the rate of advanced economies between 2014 and 2019, the potential investment opportunity is unquestionable. The challenges and associated risk of executing M&A activity on the African continent can be greatly mitigated by the ability to identify high quality assets through local network connections; partnering with an appropriate local partner to do business; and ensuring that a competent transaction advisor is appointed with skilled resources and knowledge of local markets to navigate the significant complexities unique to the continent.

Declan Hayes is a Managing Director in Deloitte Corporate Finance Limited and is based in Dubai.

Temitope Odukoya is a Partner in Deloitte Nigeria. He leads the Corporate Finance team in West Africa.

Deloitte has 5,500 members of Staff and 350 Partners in 31 African Countries and reaches 51 Countries across the African Continent.
Contacts

For more information, please contact:

Declan Hayes  
Managing Director TS,  
Transaction & Restructuring  
dehayes@deloitte.com

Temitope Odukoya  
Lead Partner  
Corporate Finance  
todukoya@deloitte.com

For further information, visit our website at www.deloitte.com/ng