Leveraging Opportunities in Africa

By Richard Li, August 2016

It is unfortunate that the regular gloom and doom stories about Africa in the international mass-media contribute to the very negatively skewed picture of the continent; leading to the perception that the African continent is a lost cause. However, should we examine further the major African businesses that constitute Africa Inc, we will see a very different picture indeed. Not only has Africa Inc shown its ability to overcome adversity to build the necessary resilience and grit to compete on the world stage, but it is also leveraging on the many opportunities within Africa to grow and build out its competitive advantage.

One of the largest African companies by market capitalisation is the beer brewer, SABMiller, that is also the world’s second largest beer brewer. To grow beyond the shores of Africa and eventually become a multinational company, SABMiller has undertaken very daring mergers and acquisitions over the last two decades, from expanding in Europe by acquiring Peroni, Grolsch and Pilsner Urquell, to name but a few, to moving into the North American market when they acquired Millers in 2002. They later on obtained a $12 billion stake in Molson Coors in 2007 and eventually bought up Australia’s Foster’s Group for $10.2 billion in 2011. One also has to mention SABMiller’s entry into China, where they purchased a substantial stake in the world’s largest beer brand, i.e. Snow.

Another multinational company with African origin is the Compagnie Financière Richemont, that is now the world’s second largest luxury group. Swiss watch connoisseurs buy very exclusive and exquisite watches from Piaget, Baume & Mercier and Jaeger LeCoultre, but few know that these brands are from Compagnie Financière Richemont, controlled by Johann Rupert from South Africa. In addition, South African media group Naspers made a very shrewd investment in 2001, buying a 46.5% in the Chinese company Tencent for $34 million. After more than fifteen years, Naspers still owns about a third of Tencent and with Tencent now worth more than $200 billion, Naspers’ stake is valued at about $67 billion. Hence, Naspers’ early investment of $34 million has now increased by about 2000 times. Other examples of Africa Inc on the move are the $2 billion Australian acquisition of David Jones by retailer Woolworths Holdings in 2014 and the recent post-Brexit Poundland acquisition in the UK by Steinhoff International, a retail holding company, for nearly $800 million. All these companies are growing by leaps and bounds, while making very shrewd acquisitions globally.

Other major African companies are in fact leveraging on the very huge potential market of 1.2 billion people in Africa for their growth strategy. The largest, fastest growing and most profitable airline in Africa is the Ethiopian Airlines. From its inception in 1945, Ethiopian Airlines has grown slowly but steadily, despite all the ups and downs in Ethiopia and Africa. Throughout its history, Ethiopian Airlines has been at the forefront of aviation technology by being the first African airline to use the Boeing B767 in 1982 to the newer B787 Dreamliner and finally the latest Airbus A350 recently. Leveraging on the African markets, its 80 aircrafts fly to more than 50 African destinations, making it one of the biggest Pan-African
companies. Moreover, it has global ambitions with its long range destinations, linking Ethiopia and Africa to Guangzhou in China, to Narita in Japan, as well as to Los Angeles and Newark in the United States.

There are also many major companies that have grown across Africa by capturing and filling a gap in the African markets. For them, rather than being an obstacle, the lack of products and services is seen as opportunities to capture. For instance, the lack of traditional landline telecommunication infrastructure has pushed Africa to leapfrog technology straight into mobile communication. South Africa-based telecommunication company MTN Group, has been able to capture the African markets with more than 180 million subscribers. Its Pan-African footprint is now across 18 African countries. Other South African companies in Africa north of its borders, include the likes of Shoprite, Massmart, Pick n Pay, Edcon, Mr Price, etc. These companies have come to realise that the massive market opportunity in the rest of Africa holds the key to escape the confines of a maturing South African market.

According to the African Development Bank, only about 25% of the African population have access to financial institutions. Ecobank is another example of a Pan-African company filling up the needs for financial services. It is now operating across 36 countries with a customer base of more than 10 million. Using his company Dangote Cement, Africa’s richest man, Aliko Dangote, has adopted an import substitution strategy by building cement factories in Nigeria. The Dangote Cement is also capturing the African markets by expanding its operations across 16 other African countries.

With Africa Inc on the move, the African continent is also attracting the attention of some major multinational companies. Seeing the potential and attractiveness of Africa, these international companies are moving in by buying companies with high potential within Africa Inc. Over the past few years, there have been quite a few major and high-profile mergers and acquisitions. For instance, in 2011, Walmart acquired a 51% stake in South African Massmart for $4.6 billion. Carrefour from France has also now ventured into Africa south of the Sahara. They recently opened their first store in Kenya in May 2016. In 2014, Marriott International bought Protea Hospitality Group for $200 million, providing it access to 16 African countries. In the same year, UAE-based telecommunication company Etisalat, acquired a major stake in Maroc Telecom for $5.7 billion. Through subsequent restructuring and consolidation of its West African telecom interests within Maroc Telecom, Etisalat has now a major footprint in Northern and Western Africa. And more recently, the world’s biggest beer brewer Anheuser-Busch Inbev, has launched one of the largest merger and acquisitions in world history to buy South African SABMiller for $104 billion.

Quite a number of Singaporean companies have also targeted Africa and are doing well. Examples include the likes of Indorama, Olam, PIL, Tolaram, Vega Foods, and Wilmar.

Despite all the negative stereotypes associated with Africa, Africa Inc is showing the path forward for all to see. These corporate activities are a testament to the many opportunities that Africa can offer to all those who dare. Moreover, all the above examples show that Africa is not about natural resources only. Africa Inc comprises of many companies across many industries, that are moving forward to tap into any opportunities in Africa and globally.

This article was written specifically for the NTU-SBF Centre for African Studies by Richard Li, a partner at Steel Advisory Partners in Singapore.

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