

Dark Skies and Green Shoots in West Africa -Accra & Abidjan

By Larry Speidell

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Bats in the air, Abidjan, Cote d'Ivoire

At dusk, the bats fly off Le Plateau in downtown Abidjan casting a hellish note on the gloomy skies from a strong Harmattan wind, blowing down off the Sahara. Landings are aborted; flights are cancelled; the palm oil crop is delayed.

It is the first time in a decade that Ivoirians can recall the Harmattan coming this far south, especially this late in winter. In Accra, Ghana as well, people are surprised and depressed. The air is hot, dark and dry. And it is unhealthy from the particles of dust, born aloft and carried hundreds of miles south.

Perhaps there is an omen in this... but more probably, it is just another example of climate change. Another was the London snowstorm that delayed a client and friend on his way to join me for a conference and company meetings in West Africa.

What we found was good news in these Harmattan-like times for the financial world. We found green shoots in Ghana and Cote d'Ivoire, two countries that have had their share of challenges. We also found some good companies, run by good managers.

	Cote d'Ivoire	Ghana	Zambia	Iraq	Palestine	Jordan
GDP Growth (2012 est)	8.0%	9.0%	6.0%	9.8%	5.0%	3.0%
Inflation	3.0%	8.0%	7.5%	7.0%	2.8%	5.0%
Population (mil)	21.5	24.8	12.9	30.4	4.0	6.3
People / km sq	67	104	17	69		71
% Literate	49%	58%	70%	74%		90%
% Literate Female	39%	50%		64.2%		84.7%
% under age 15	40%	37%	46%	38%		34%
Life expectancy	56.8	61.0	48.7	70.6		78.9
% Urban	51%	51%	36%	66%		78%
GDP / cap (PPP)	\$1,600	\$3,100	\$1,600	\$3,800	\$2,900	\$5,100
Electricity/cap kWh	166.7	242.8		1,710.5		
% Unemployed	40%	40%	50%	15%	24%	13%
Land (km sq)	322,462	238,533	752,618	438,317		88,802
Market Cap (\$ bil)	\$6.4	\$26.9	\$2.8	\$4.4	\$2.5	\$30.0
Market Cap/GDP	26.7%	69.6%	47.5%	4.1%	42.8%	100.0%
GDP	\$23.8	\$38.6	\$5.9	\$108.6	\$5.7	\$30.0

Source: FMAM, www.cia.gov, Feb 2012



GHANA

Ghana is booming.

GDP growth was 13.6% last year and is expected to be almost 9% in 2012. Seasonal weakness in their currency, the Cedi, may prompt monetary tightening, but in general the macro outlook is good. Especially now that oil production from the offshore Jubilee Field, discovered in 2007, is up to 80,000 barrels per day, on its way to 120,000.

To avert corruption from the "black gold", Ghana has sought advice from Norway and The Netherlands in order to set up two sovereign funds: a Stabilization Fund, for smoothing economic cycles, and a Heritage Fund, for future generations.

Against the advice of the World Bank, Ghana also has taken on a \$3 billion loan from China, \$800 million of which will source gas from Jubilee through a pipeline to supply Ghana's power plants beginning in 2013.

Even in advance of gas from offshore, the electric power situation in Ghana has improved dramatically since 2010. The water level in Lake Volta has returned to normal, which has boosted hydropower production and a third dam is scheduled to be completed by the Chinese in 2012. Also, Nigeria, located to the east, finally has begun providing gas through the West Africa Pipeline. Even with these improvements, some companies, such as Unilever Ghana, are planning to be self-sufficient by having third parties build gas turbine back-up plants.



www.cia.gov

Ghana is politically noteworthy for its peaceful transitions of power, most recently in 2008 when John Mills defeated Nana Dankwa by the slim margin of 50.2% to 49.8%. The next election is in December 2012, and there is some dissatisfaction with Mills over disappointing job growth. Change may be in the wind, but most people believe it will be peaceful.

Mills made a diplomatic blunder when he was slow to back the winner in Cote d'Ivoire's elections last year. In retaliation, Cote d'Ivoire has unearthed a colonial era map that shows the border with Ghana much further east than presently believed, purporting to give some of the Jubilee Field to Cote d'Ivoire. Based on the generous offshore boundaries in the current map below, it appears that they may have a point....



<http://crossedcrocodiles.wordpress.com/2009/07/16/ghanas-jubilee-oil-field/jubileefieldmap/>



COTE D'IVOIRE

Since our visit in 2010, Cote d'Ivoire (also known as the Ivory Coast) had descended to the brink of civil war: The CIA Factbook says: "In November 2010, Alassane Ouattara won the presidential election, defeating then President Laurent Gbagbo. Gbagbo refused to hand over power, resulting in a 5-month standoff. In April 2011, after widespread fighting, Gbagbo was formally forced from office by armed Ouattara supporters with the help of UN and French forces. Several thousand UN peacekeepers [4,500] and several hundred French troops remain in Cote d'Ivoire to support the transition process."



<http://www.un.cia.gov>

The violence was unnecessary and despicable. Among the casualties in April 2011 was the Chairman of Palmci, Yves Lambelin, who was kidnapped at the Novotel and then murdered along with several aides by Gbagbo supporters.

Now, however the new government is in place, the parliament convenes this spring and foreign governments are providing loans and aid. Real GDP dropped 5.8% in 2011 due to the crisis, but it is expected to grow by 8% in 2012.

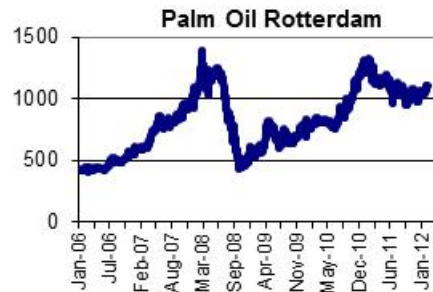
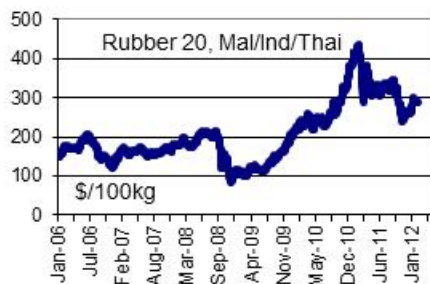


Sign on the entrance door, Pullman Hotel, Abidjan
(copies of this sticker available on request)

While it was comforting to see a United Nations pickup truck with a machine gun at the entrance to the Pullman Hotel, the business environment in Cote d'Ivoire is returning to normal. Agricultural production in palm oil, rubber and cocoa is up. La Croisette Restaurant (Little Cross) has reopened (and the steak au poive is superb, <http://www.youtube.com/watch?v=eVwclVht9Q>). More important, the new government is trying to stimulate business. We have known Jean-Luc Bedie, founder of the Hudson brokerage firm, as a friend and a bright man. Now he is Conseiller Financier in the coalition government and has plans to improve stock market liquidity and privatize more companies.

At Palmci, longstanding Finance Director Clovis Kacou is pleased with the production of 250,000 tons of crude palm oil (CLO) last year, losing only 30,000 tons due to the strife. In 2012 their goal is 300,000 tons, and it appears that prices will be good (around \$1,000/ton versus \$1,121 in 2011). Africa actually imports half a million tons of CLO to satisfy cooking oil demand, so growth in local production is a big opportunity.

Cote d'Ivoire is benefitting from relatively high prices in agricultural products as shown in the charts below:



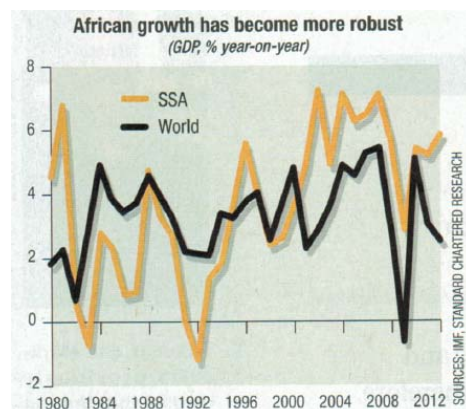
Euromoney Conference – Accra, Ghana

Euromoney's first "Ghana Finance and Investment Conference" was perhaps a bit over the top by having a full band inside the ballroom for opening ceremonies, but the topics were interesting, and the speakers were informative. Mark Mobius, of Franklin Templeton, gave the keynote address and made the case for emerging markets, for frontier markets and for Africa in particular. He projects that 2012 real GDP growth will be 5.5% in Africa, versus 5.4% in emerging markets and 0.8% in the developed world. The chart at the right shows that GDP growth in Sub-Saharan Africa has improved from 2% or so in the 1980s to 5% plus lately.

I participated in a panel on banking, in which one panelist pointed out that private sector credit / GDP is only 26% in Ghana, versus 36% in Nigeria, 80% in South Africa and 170% in the developed world. The fact that Ghana has only 4.5 million bank accounts for its population of 24.8 million (14 million adults) is more evidence of the

opportunity in the financial sector is. Meanwhile, next door in Cote d'Ivoire, banking are even less developed, with only 2 million bank accounts for its population of 21.5 million.

Overall, banking in Africa is still in its infancy. Not only is penetration low, but the banks don't even act like banks. Instead of taking deposits and making loans to their depositors, they take to money from depositors and then lend mostly to big corporations and government projects... or they simply buy government bonds. Typical loan/deposit ratios are only 40-70% compared with 90-100% or more in the developed world. Moreover, asset leverage is low in frontier markets, with assets to equity of 6-9x compared with much higher leverage in the developed world: 22x for BNP Paribas, 25x for Societe Generale and 43x for Deutsche Bank.



The Africa Report – February 2012

This isn't to say that African banks should copy European leverage ratios, but that African banks are being extremely cautious. We believe they need to do more lending, especially to their retail clients. And they need to offer better rates: Ghana's CAL Bank, for example, pays only 8% to retail depositors versus 12% to corporates. Then it lends at 26% to its retail customers versus 22% for corporates. SMEs (small and medium size enterprises) are treated just as badly. One panelist at the conference said: "SME financing from banks is so expensive that entrepreneurs are effectively working for a bank."

The Euromoney conference also touched on some of the structural changes needed in order for banking to take off in Africa:

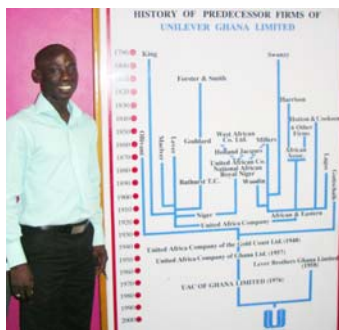
Credit Bureaus: Banks in Nigeria got in trouble in 2008 because they made loans to people who already had loans at other banks. With centralized credit bureaus, this information could be shared. Ghana now has three credit bureaus including Dun & Bradstreet, but changes in legislation are needed to allow banks to share more loan information.

Property Rights: In many places, tribal chiefs control all the land and are reluctant to give title to the families that have farmed it for generations. Until this changes, farmers will continue have trouble getting credit to buy fertilizer, seed or tractors, so that they can raise more crops.

Lending Culture: One banker said to us: "please tell the conference that we need to teach people that they need to pay back their loans." Until borrowers understand that a loan is not a gift, it will be hard to make a success of retail lending. By contrast, the cultural values in the Middle East and Asia make loan defaults a personal disgrace.

The Markets

Cote d'Ivoire and Ghana have interesting stock opportunities.



Mike Tyson, Finance Manager, Unilever Ghana

As bottom-up stock-pickers, we look for opportunities wherever countries are investor friendly and trades can be managed effectively. Comparison sheets that list stocks and their financial ratios in each market are our starting point. We compare PEs and yields, but we like to focus on those companies that can benefit from rising consumer disposable incomes. We like what we call "sidecar" companies. These are the locally listed subsidiaries of global multinationals, in which the parent typically holds 50-70% while the balance trades in the local stock market. Examples in Cote d'Ivoire are BICICI (controlled by Banque Paribas),

SGBCI (controlled by Societe Generale), Nestle, and even SAPH, a rubber producer (partly owned by Societe Internationale de Plantation d'Heveas SA, based in France). In Ghana, we like companies such as SCB (Standard Chartered Bank), Unilever Ghana but also the government controlled Ghana Commercial Bank (a turnaround with new management).

Although both exchanges are not very liquid, the valuations are reasonable, at rough 9x 2012 earnings. In Ghana, the yields are modest, but the market in Cote d'Ivoire yields 7.9%

Conclusion

We believe that West Africa deserves a close look. The fundamentals are improving: they have better governments, better agricultural practices, friendly people and the possibility of a bonus from oil discoveries. The markets may be small, but as more investors discover them, there is the possibility for a significant revaluation. The Harmattan winds will subside, and hopefully investors' anxieties will as well. We believe this is an excellent time to travel to the region, eat some of its good food and search for some good stocks.



*Euromoney Conference reception committee- Accra, Ghana
(some of them fourth generation musicians)*

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