Fortune favours the informed - the African paradox

JOHANNESBURG: Africa is unquestionably a continent of opportunity - its sheer size, rapid economic growth, expanding middle class and steadily improving governance indicators provide ample justification for optimism.

However, looking at the investment landscape, it is clear many investors have yet to subscribe to this 'golden age' notion. While the performance of the DJ Africa Titans Index has recently surpassed similar BRIC and global indices, private equity fundraising and FDI trail other emerging regions.

One plausible explanation for such a disconnect lies in the perception gap influencing investment in Africa. While one might conclude that a good proportion of international investors (mostly from the United States and Europe) perceive the risks to overshadow the rewards, a growing number have recognised the value-creation opportunities yet remain frustrated by the limited platforms available through which to navigate the challenges.

How, then, is this relevant and what are the implications for telecommunications investment? The reality is that TMT (telecommunications, media and technology) lies at the very core of the African opportunity. Mobile services have material growth potential, with penetration over population of 61% compared with 103% for Latin America and 77% in Asia. Underserved demand for internet services is 10 times higher than in peer markets, and infrastructure-related investment has risen to more than US$60 billion in the last five years.

Investment opportunities in TMT stem from prevailing market imbalances, attractive multiples relative to other emerging markets, deal fallouts, and the reluctance of operators and governments alike to address the need for infrastructure-sharing and new business models. Overall, Africa presents undeniable opportunities for investors who are able to get under the skin of the continent, truly understand specific markets and their characteristics, and ultimately separate the wheat from the chaff. The logical corollary is that risk and value destruction lie in wait for investors incapable of disentangling the challenges of the continent and its defining market forces.

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