BMI Research
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# 7 SECTORS RIPE FOR INVESTMENT IN SUB-SAHARAN AFRICA

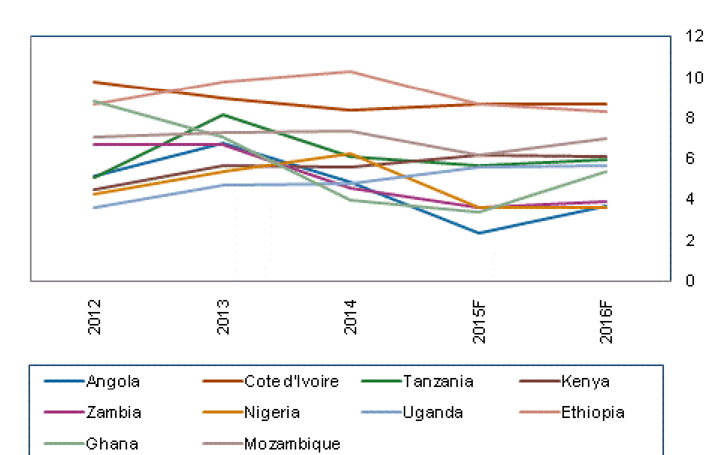
## Economic Analysis - 7 Sectors Ripe for Investment in Sub-Saharan Africa

08 Oct 2015 | Africa | Economy

**BMI View:** *Despite a challenging macroeconomic environment, there are many compelling investment opportunities in a variety of sectors across Sub-Saharan Africa (SSA).These include gas-fired power and infrastructure in Côte d'Ivoire, mobile financial services in all of SSA except Angola and Ethiopia, oil production in Angola, pharmaceuticals/healthcare in Ethiopia, and the premium car segment in Kenya.*

The outlook for the SSA region as a whole has dimmed on account of the commodity rout and the Chinese slowdown. SSA will be struggling with growth at 3.7% in 2015 and 4.3% in 2016 still below 2014's 4.8%. With this unsupportive environment as a given, this article identifies the most resilient economies from a macroeconomic point of view and the most attractive sectoral opportunities across the leading SSA economies.

**The Macro Backdrop**




*Source: BMI*

| SELECTED AFRICAN ECONOMIES' COMMODITY EXPORTS AS A SHARE OF TOTAL EXPORTS, % | | | | | |
|---|---|---|---|---|---|
| | Total Commodity Exports | Energy Exports | Metals Exports | Food Exports | Raw Materials |
| Angola | 81.1 | 47.8 | 5.5 | 26.2 | 3.2 |
| Gabon | 78.4 | 66.3 | 1.2 | 0.5 | 10.8 |
| Cameroon | 71.3 | 16.1 | 6.6 | 34.7 | 13.9 |
| Rep of Congo | 61.3 | 52.6 | 0.2 | 1.8 | 6.7 |
| Côte d'Ivoire | 70.9 | 11.9 | 0.2 | 44.7 | 14 |
| Ghana | 66 | 5.4 | 7 | 50.2 | 3.3 |
| Mauritania | 75.9 | 9.2 | 47.2 | 23.8 | 0 |
| Mozambique | 46.1 | 4.7 | 26.7 | 10.9 | 3.9 |
| Niger | 65.8 | 2.1 | 38 | 23.2 | 2.5 |
| Nigeria | 88.4 | 79.5 | 0.7 | 6.1 | 9.8 |
| Sudan | 69.4 | 56.5 | 0.3 | 11.8 | 9.8 |
| Zambia | 77 | 0.4 | 72.4 | 2.7 | 1.6 |

***Source: IMF World Economic Outlook, October 2015***

Nigeria, Ghana, Angola and Zambia are particularly exposed to the commodity rout, given their commodity exports account for at least 66% of total exports. The case of Nigeria illustrates this well: its short-term macroeconomic outlook has dimmed in line with the economy's excessive reliance on energy exports - they account for 79% of exports - with real GDP growth forecast at 3.4% in 2015 and 3.8% in 2016. And the privatisation of the power sector, which should have boosted long-term growth, ended up in a shambles. It failed to give free market pricing to gas suppliers, meaning generated output has never risen above 5,000 megawatts, which is about a third of peak demand. The insufficient power supply emerged as the leading constraint in the Central Bank of Nigeria's Q115 Business Expectation Survey. However, we still believe in our long-term view that the burgeoning consumer market will generate growth in demand for private healthcare and education.

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The prospects for Mozambique were also initially bright, largely on the basis of its natural gas resources. However, delays to planned investment in the sector and the dual headwinds of weak external demand and prices for its key export products - coal and aluminium - will play unsupportively.

Meanwhile, Côte d'Ivoire, Ethiopia, Uganda, Kenya and Tanzania have less exposure to the commodity slowdown and the latter is offset by strong reform momentum, infrastructure investment and/or economic diversification. Among these countries, our strongest conviction picks from a macro perspective are Côte d'Ivoire and Kenya.

We expect Côte d'Ivoire's real GDP to grow by 8.7% in both 2015 and 2016. It has relatively minimal exposure to China and it has minimal exposure to the hard commodities which are experiencing the most severe corrections. Although cocoa, which is its main export, is set to see prices fall in the coming years, this will be moderate, and production growth will remain positive. Investment into major infrastructure projects such as the Abidjan container terminal and a new regional rail network, and the ongoing resurgence in the oil sector, will cushion the commodities blow. Growth will gain tailwinds from buoyant government spending following a USD1bn Eurobond issue in February 2015. Furthermore, private investment should surge once the presidential elections have passed on October 25. We expect the polls to pass relatively peacefully and reformist President Alassane Ouattara to win another five years in power. Judging from the past five years, strong reform momentum should continue to boost the economy if our central scenario prevails.

While a battered currency poses the greatest downside risk to Kenya's economy as it dampens its investment outlook, its diversified economy means that it is less exposed than many emerging markets to the current downturn in commodity prices and the slowdown in the Chinese economy. While a tense security situation continues to depress the tourism sector, the tertiary sector remains a dynamic growth engine with second-round effects in the form of credit expansion. Indeed, the mobile banking revolution has created credit options, which open up a whole new consumer market and should provide a long-term engine of growth. Mobile banking is also contributing to the financialisation of the economy through the issuance of a mobile banking bond. On October 16 Kenya will launch the world's first treasury bond offered exclusively through mobile phones. The so-called M-Akiba bond is a step towards a) helping to encourage savings and strengthening purchasing power/insulate households from inflation b) helping to deepen and widen Kenya's capital markets, opening up a new source of financing for the government and potentially companies.

**Sectoral opportunities**

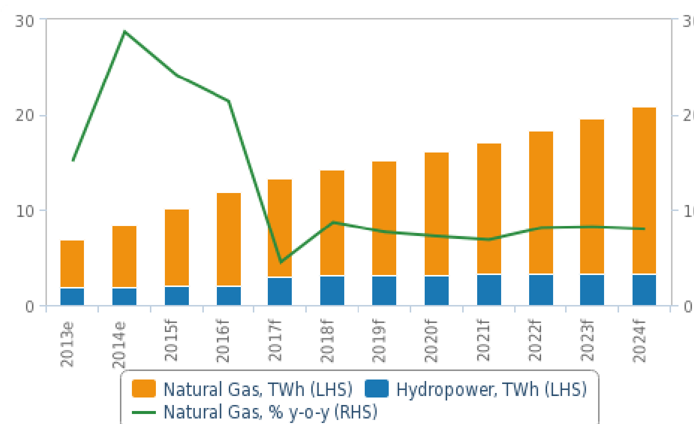
Overall, the leading SSA economies are going through a tough year in macroeconomic terms, but there are still many long-term sectoral opportunities on offer.

1) **Oil Exploration & Development in Senegal**

Despite our outlook for oil prices to decline to USD57/barrel in 2015 and USD56/barrel in 2016, Senegal has emerged as a bright spot in West Africa, due to the mix of its high prospectivity below ground, a supportive fiscal and regulatory framework and broad political stability. Major deepwater discoveries have catalysed interest in the country's underexplored offshore acreage, with the upstream sector well-positioned for growth in the coming years. Continued exploration and development of the country's oil resources will create substantial opportunities in both the oilfield services and infrastructure sectors, given the highly frontier nature of this emergent oil and gas play.

2) **Gas-Fired Power in Côte d'Ivoire**

A politically stable, pro-business environment will support gas-fired power expansion in Côte d'Ivoire over our 10-year forecast period - resulting in steadily climbing power output and cementing the country's status as an outperformer in the SSA power sector. Domestic sources of gas coupled with a strong project pipeline of efficient combined cycle gas turbine projects and a business friendly operating environment will support the entrance of private investors. We therefore expect the power generation output to grow by an annual average of 8.7% between 2015 and 2024, supporting economic growth.




**e/f = estimate/forecast. Sources: EIA, BMI.**

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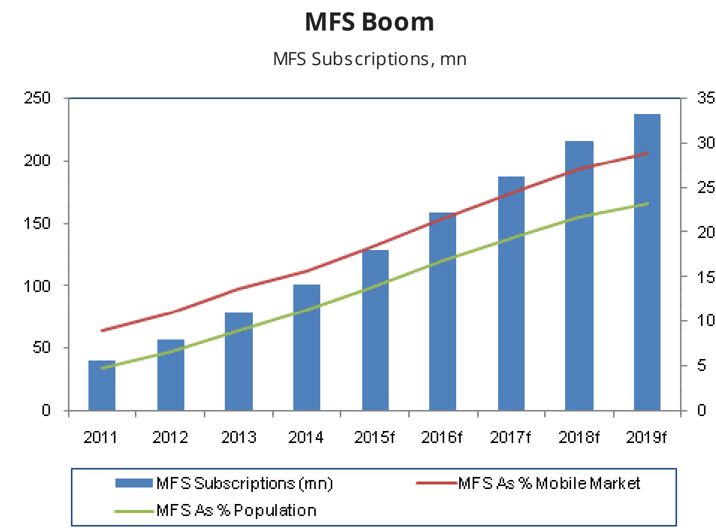
3) **Infrastructure In Côte d'Ivoire**

In infrastructure, our long-term view on Côte d'Ivoire is playing out nicely. Côte d'Ivoire's attractive public private partnership (PPP) investment profile and operating environment in comparison to its regional peers continue to make it one of our top performing infrastructure markets in terms of growth and investment over the next five years. Driven by projects under the country's USD22.8bn National Development Plan and large scale efforts to reform the business environment, a number of PPPs have been signed over recent months which will not only support growth in the construction sector, but also continue to build the market's reputation as a safer investment destination - crucial for attracting the long-term investors needed for infrastructure. We forecast real growth in the construction sector over the coming five years at an annual average of 8.2% which is robust at a time when other markets more exposed to the fall in commodity prices have had their growth slashed over 2015.

4**) Mobile Financial Services** (**MFS) in all of SSA except Angola and Ethiopia**

Our long-term view on mobile towers in Côte d'Ivoire, Ghana, Nigeria and Tanzania has played out in a big way. Going forward, however, MFS will outperform. The outperformance of operator-led MFS is due to the much lower barriers to access for consumers: mobile networks reach a much larger segment of the population than banks can profitably reach through brick-and-mortar branches, while the high volume means operators can charge much lower rates for processing money transfers and set lower minimum transaction values, in line with the needs of the vast majority of African consumers.




*Source: World Bank, Operators, BMI*

Mobile operators have reported accelerating take-up of MFS in 2015, as consumers become increasingly familiar with the services, and as their MFS platforms become more sophisticated, offering cross-border remittances, savings, loans and merchant payments, on top of basic peer-to-peer transfers. These factors will sustain strong subscriptions and usage growth in 2016, with laggards like Nigeria set to see improved take-up as mobile operators and banks have finally adapted to the country's strict regulations. Angola and Ethiopia are the only two markets where MFS growth will not play out, owing to the limited competition in their mobile markets, which curtails innovation among mobile operators.

5) **Oil production in Angola**

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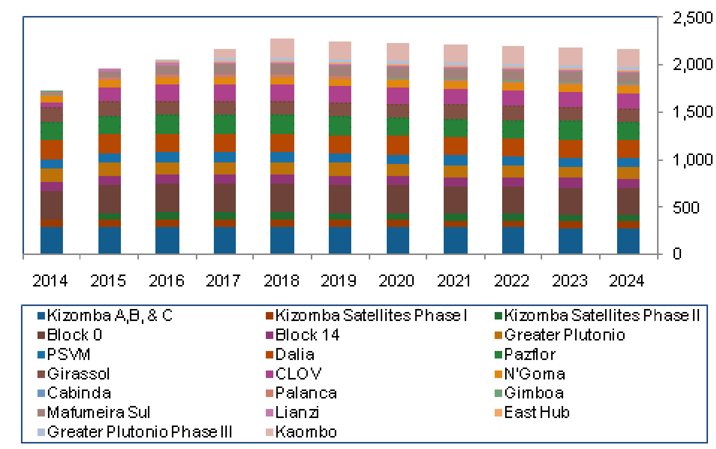
**Ramping It Up**

Oil Production In Angola Per Field, Thousands of Barrels Per Day

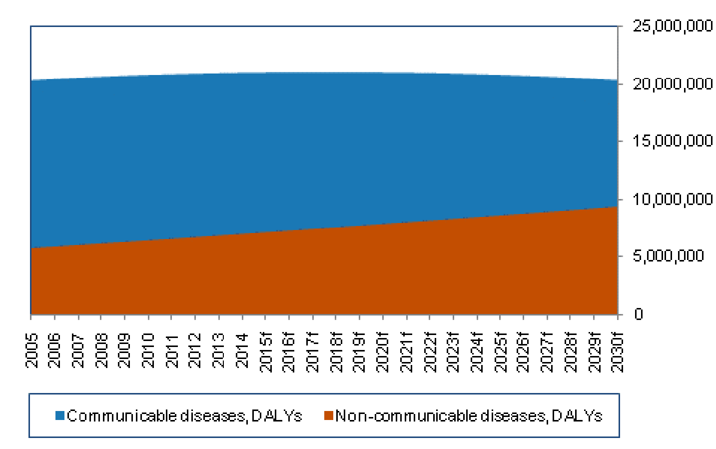



*Source: BMI*

Angolan oil output is set for strong growth over the next five years, despite the sharp drop in global oil prices. A spate of major projects is due to come online by 2019, bringing around 500,000b/d of additional capacity. New production and midstream infrastructure will be needed to support the increase in output, and with the bulk of new production concentrated in deepwater and technically challenging plays, growth will be heavily services-intensive. Local content requirements are minimally enforced, and given limited domestic capacity the opportunities that accrue to the foreign private sector will be substantial.

6) **Pharmaceuticals and Healthcare in Ethiopia**

**A Growing Disease Burden**




***Source: BMI's Burden Of Disease Database (BoDD). DALYs = disability-adjusted life years***

Our long-term view on telecare in Kenya is playing out nicely. Furthermore, we view Ethiopia as an emerging opportunity for investment within the pharmaceutical and healthcare industry, in view of its sizeable population, rapidly growing economy and stable political environment. The country has huge untapped potential and the main drivers of expenditure growth include the large underlying burden of communicable diseases, growing burden of non-communicable diseases, increasing urbanisation, rising income levels and the rapidly growing and ageing population. Ethiopia's government is taking an active role in promoting the development of the pharmaceutical and healthcare sectors and is facilitating foreign direct investment. Highlighting its potential, **GlaxoSmithKline** announced it intends to position Ethiopia as its pharmaceutical supply hub for East Africa in early 2015. Affordability levels are low, although there is a rising demand for high-value innovative products, driven by the emerging middle class.

**7)Kenyan Premium Car Segment**

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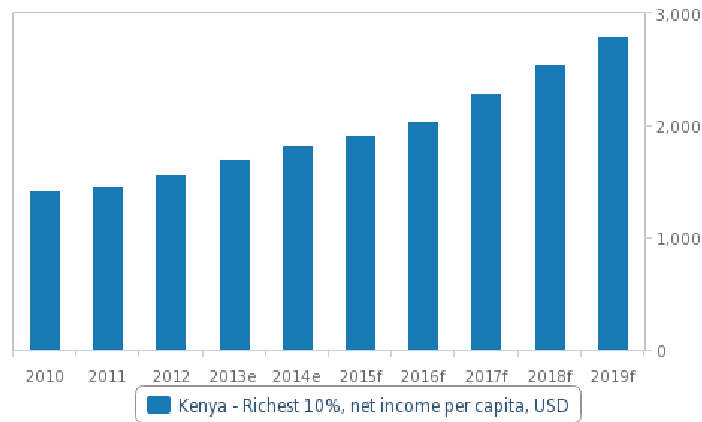
**Creating A Premium Market**

Kenya Net Income Per Capita, Richest 10%




*Source: National Sources, BMI*

In autos, we like the Kenyan premium car segment. While income inequality in the region is a barrier to entry for many volume car brands, it provides one of the biggest growth opportunities for those at the premium end of the spectrum. Premium car manufacturers were among the best performers in a record year for Kenyan vehicle sales in 2014. Net income per capita for the richest 10% of the Kenyan population has grown 28% between 2010 and 2014, to an estimated USD1,821, supporting this increased spending in the premium segment. However, the real growth is set to come over the next five years, when we expect the net income per capita of the richest 10% to more than double, reaching USD2,869 by 2019.

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