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BARCLAYS AFRICA: LOOKS LIKE NO SINGLE BUYER WILL TAKE CONTROL

Is Barclays Africa (BAGL) destined to become an orphan with no parent company? It has been five months since the book build in which UK lender Barclays Plc disposed of 12,2% of its holding in BAGL to a wide range of shareholders (see Financial Mail May 12-May 18). That was the easy part, and with 50.1% of the shares, Barclays is just a handful of shares away from relinquishing control. BAGL deputy CEO David Hodnett says the process has not taken longer than expected, as there was always a two- to three-year horizon for completion.

BAGL and Barclays Plc have the complex task of ensuring that the operational separation of the two groups is orderly and, of course, that it preserves value for both sets of shareholders. Barclays was at least able to give some news to impatient shareholders and analysts last week. It has sold its 150-year-old Egyptian subsidiary to Attijariwafa Bank, the largest bank in Morocco, for US$500m. Barclays Plc and the then Absa could not agree on the right commercial terms to buy Barclays in Egypt or Zimbabwe, and officially BAGL has no regrets.

Andrew Vintcent, a portfolio manager at ClucasGray, says he can’t see any reason why most shareholders wouldn’t want to increase their holding in BAGL through a second round of book building. "It is on a dividend yield of 6,5% and a p:e of nine, and a book build would be at a discount to that. And it’s not as if it is a bad business. It is well managed with a strong SA brand in Absa." In the half year to June, BAGL, under CEO Maria Ramos, had headline earnings per share growth of 7%, as good as market leader FirstRand. And BAGL has continued to evolve in spite of the distraction of the divorce.

Hodnett, a competent executive, has been put in charge of the entire SA banking business and promises the component businesses will work much closer together, while former Tiger Brands head Peter Matlare — though he has a controversial past — is in charge of African operations and has already done a lightning tour of all the operations, no doubt relieved that there aren’t any flour mills. Barclays will be forced to consolidate BAGL in its accounts until it reduces its holding to between 15% and 20%. The next step is likely to be a big-bang sale of about 30% of BAGL.

Perhaps 5%-10% of the equity can be brought in to rebuild the staff incentive scheme. Besides the book build among a wide range of shareholders, and possibly some new foreign institutions, there are talks behind the scenes to build a black empowerment consortium to take a 10%-15% stake. But unlike the Batho Bonke consortium, which sold its interest in Absa four years ago, the members of this consortium will be expected to pay their own way.

The Public Investment Corp (PIC) is leading the discussions. "The PIC is still keen on participating in a consortium that could buy a further stake in BAGL," says Deon Botha, head of corporate affairs, "though nothing concrete has come out of these discussions yet." Botha says the PIC wants potential partners in the consortium to be in a position to fund their portion of shares.

But it is likely that the PIC will stop short of becoming the shareholder of reference. It does not own its funds, nor are they government’s assets. They are managed on behalf of the members and pensioners of the Government Employees Pension Fund. And they require a liquid balanced portfolio, not a financial services empire. It is also not clear if the PIC qualifies strictly speaking as a BEE shareholder. Botha says the Reserve Bank would have to approve before the PIC could become a shareholder of reference in any bank.

One name always comes up when cash-flush black empowerment companies are discussed and that is African Rainbow Capital (ARC), controlled by billionaire Patrice Motsepe and the rest of the Ubuntu-Botho consortium, which is Sanlam's empowerment partner. ARC co-CEO Johan van der Merwe says its preference is to take investments of at least 25% in niche companies such as asset manager Colourfield Liability Solutions and insurance broker Indwe Risk Services.

It recently broke this rule, however, to take a 10% holding in Alexander Forbes. An investment of, say, 5% in BAGL would take the bulk of ARC's remaining free cash, though of course it has plenty of scope to gear.

The highest-profile interest in taking control of BAGL came from former Barclays CE Bob Diamond's Atlas Merchant Capital in conjunction with his joint venture partner in Africa, Ashish Thakkar. Of course, next to Motsepe they look rather puny. Atlas Mara was always too small to take control of BAGL; its market cap of about R6bn is dwarfed by the 0R70bn value of Barclays' half share in BAGL. Its ticket to the game was the partnership of the giant private equity firm Carlyle.

But the SA Reserve Bank has made it clear that it does not want private equity investors controlling one of the big four banks. Carlyle promised to put in permanent capital and also to have a caring, sharing attitude and not take the traditional slash-and-burn approach typical of the private equity industry. But they remain pariahs at Church Square, as does its Dubai-based competitor Abraaj, which has formally pulled out of the bidding.

After the experience of Barclays, which is pulling out of SA for the second time — now after a sojourn of just 12 years — the Reserve Bank should have a more jaundiced view of the value of a shareholder of reference. A few names have come up as potential buyers, all in the Middle East and East Asia, such as Qatar National Bank and the China Construction Bank. And all these banks operate more discreetly than, say, Diamond, so they won't talk until they are absolutely ready.

But it looks increasingly likely that BAGL will revert, as it was in Absa days, to being an independent widely held bank.

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AFRICA'S MOST VALUABLE BUSINESS IS WORTH LESS THAN IT OWNS

Fifteen years ago, a South African media company invested $34m in an obscure Chinese internet developer. Today that stake is worth $88bn. All Naspers, now Africa's most valuable company, has to do is figure out how to make money from its other properties. The whole company is worth only $72bn, less than its stake in Shenzhen-based Tencent Holdings. Investors are not impressed with Naspers's operations in pay-TV, newspapers and e-commerce in such countries as SA, Russia and India.

To win them over, CEO Bob Van Dijk has launched an aggressive push to sell some assets, invest in others and expand operations such as classified advertising into new markets. If it pays off, comparisons with Tencent could become more flattering.

The valuation gap was an "opportunity for long-term investors who have done their homework" on Naspers's e-commerce components, said Ruan Stander, a money manager at Allan Gray, which owns Naspers shares. "The headline accounting numbers can mislead you into thinking these businesses are failing", yet they needed a period of loss-making to establish themselves in the marketplace, he said. On Tuesday, Naspers said it would combine Ibibo, a travel business in India, with competitor MakeMyTrip to boost their presence in the South Asian country. Last week, Naspers agreed to sell Allegro, a Polish online auction site, for $3.25bn, saying the sale was "consistent with the group's strategy to find and unlock value for shareholders". Shares rose after both announcements, bringing Naspers's gains on the JSE this year to 7.1%.

The company also hired Citigroup MD Fahd Beg as deputy chief investment officer, people familiar with the matter said, a move that boosted the company's team of executives scouring the planet for the next Tencent-style success story. To make more money from its operations, Naspers will have to overcome a threat to its satellite TV business from new competitors and e-commerce activities that lost $693m in the past fiscal year. Companies such as classified-ad business OLX operate in 40 countries, yet only 10 are cash-generative, according to Bloomberg Intelligence media analyst Tal Smoller. Naspers-owned Flipkart may be India's biggest online shopping hub, yet the e-commerce market in that country was still nascent, she said.

"The key to Naspers doing more than merely tracking Tencent's performance will be the extent to which they can successfully monetise these e-commerce assets," Anchor Capital chief investment officer Sean Ashton said.
Naspers, which started out as a newspaper publisher in 1910 before expanding into TV in the 1990s, bought the Tencent stake under then-CEO Koos Bekker in 2001. Since then, Tencent has developed WeChat, an instant messaging app that has 805.7million monthly active users. Even China's economic slowdown is not hurting its fortunes.

"More advertisers might choose to place ads with Tencent in times of downturn, since its platform might be more effective than offline channels," said Yu Jianpeng, a Hong Kong-based analyst at ICBC International Research. "One of Tencent's biggest strengths is the traffic it generates as a social media platform, making it an attractive game distributor."

Although Tencent accounts for half of Naspers's revenue and almost all its earnings before interest, taxes, depreciation and amortisation, the South African company does have some successful operations. Its pay-TV business, MultiChoice, has close to 10 million subscribers in 49 sub-Saharan African countries and broadcasts international sports and hit dramas like Game of Thrones and The Walking Dead. Dubai e-commerce Naspers has stakes in about 45 technology and media companies around the world, including US online-learning provider Udemy and Souq.com, known as the Amazon.com of the Middle East. The Dubai-based online retailer was planning to sell a block of about 30% that would give the company a value of at least $1.2bn, people with knowledge of the matter said last month.

"Our focus remains on delivering long-term value and sustainable profits," Meloy Horn, Naspers's head of investor relations, said. "We expect sustained good results and increased contributions from our fast-growing e-commerce operations to rectify the discount" to Tencent.

But MultiChoice faces new competition from entrants such as Econet, owned by Zimbabwean businessman Strive Masiyiwa. StarTimes, a fast-growing Chinese rival, had also enjoyed "rapid growth on the continent by targeting the mass market with bouquets for as little as $3", Priscilla Tirvengadum, an analyst at Dataxis Africa, said.

Slowing sub-Saharan African economies are causing MultiChoice customers to cancel subscriptions that can reach about R1,200/month. Meanwhile, increasing availability of broadband has allowed Netflix to start in SA and Nigeria and given internet users the opportunity to access video over Google and Facebook. Naspers pay-TV CEO Imtiaz Patel said that was a concern because they were unregulated. The video-entertainment unit, which includes MultiChoice, lost 288,000 subscribers in the 12 months to the end of March, while trading profit was down 17%. The poor performance of the video-entertainment business prompted S&P Global Ratings to revise to negative its outlook on Naspers's BBB- rating, only one notch above junk status.

Patel said Naspers planned to broaden its appeal to those who did not want to pay for premium packages. Last year, the company launched its answer to Netflix, an online video offering called Showmax. "Our 2016 year was a tough financial year, especially with African currency devaluations, but we have reviewed the business strategy, moved the English Premier League football to our lower priced Compact bouquet and did not implement any price increase for the year," Patel said.

Yet, while Naspers grapples with pay-TV and e-commerce, Tencent goes from strength to strength. Net income soared 47% to a record 10.74-billion yuan ($1.6bn) in the second quarter, as the company splashed out on mobile games and content — prompting user numbers to mushroom and online advertising revenue to jump 60%.

BREXIT MOTIVATES BRITAIN TO DEVELOP A PRO-DEVELOPMENT TRADE POLICY WITH AFRICA

Britain is expected to sharpen its African aid focus on economic and trade-related projects to promote prosperity on the continent in forging new partnerships after leaving the EU. Priti Patel, the international development secretary, is said to be sympathetic to proposals by a panel of experts convened by MPs and peers that the UK should take advantage of Brexit to develop a "pro-development trade policy with Africa".

The government has yet to develop an Africa strategy, but Prime Minister Theresa May announced last month that countries in east Africa would be among the biggest recipients of extra British aid to keep illegal migrants out of Europe.

Patel will be May’s first minister to travel to Africa when she visits Kenya this week. Her trip is expected to take in Mombasa, the largest port in east Africa and a focus of British aid through TradeMark East Africa, a programme to cut trade barriers and boost commerce.

Africa gets more UK overseas development assistance than any other region, £2.54bn in 2015. The proportion spent on aid-for-trade rose from 28.5% in 2012 to 37% in 2014, according to Financial Times analysis of figures from the government and the OECD, the Paris-based club of mostly rich nations. Under UK law, the government’s international development spending must be focused on poverty reduction. Patel’s strategy of relying on recipient countries being "more open to conversations" about trade and her past hostility to the existence of the Department for International Development have alarmed some NGOs.

But members of the expert panel, who were assessing the previous government’s Africa Free Trade Initiative, insisted trade promotion was an integral part of development.

"An important role of aid is in disaster relief and that won’t go away," said Lord Green of Hurstpierpoint, a former trade minister and co-chair of the panel. "But everybody recognises that private sector activity is a crucial part of sustainable development." He urged the government to take advantage of Brexit to "draw on the best of existing US, Canadian and other policy to drive trade with Africa".

British aid has, among other things, been used to cut the time to clear imports to Rwanda through customs from 11 to 1.5 days, helped modernise Dar es Salaam’s port in Tanzania and leveraged $684m in private sector investment in agribusiness in 12 African countries.

Lord Green said Mrs. May should appoint someone to "champion" British trade in Africa and "join up the various dots" between development assistance and trade policy.

Trade between the UK and sub-Saharan Africa rose nearly 25% from 2008 to 2014 but the UK’s share of the region’s trade with the world has stayed at 3%, according to the UN. Exports from Germany, France and Italy to sub-Saharan Africa were more than 50% higher than those of the UK in 2014.

MOZAMBIQUE PURSUES CHINESE FIRMS FOR INDUSTRIALISATION

Mozambique's Institute for Export Promotion (IPEX) says it is pursuing Chinese firms to help industrialize the country and realize its dream as an invaluable exporter of goods and services required by an expanding global market.

In a statement to APA on Tuesday, IPEX Chief Executive Officer Joao Macaringue said to this end Mozambique is seeking more Chinese effort towards serious investment in industrialization in addition to constructing roads and railways to fulfill its potential as a major source of commodities and energy for China. He said Chinese business investors keen on Mozambique should visit the country to confirm their faith in such an enterprise.

"It turns out that our ability to penetrate the Chinese market remains very low, so we intend to invest in attracting knowledge they have in production, processing and export," Macaringue said. The IPEX head has just returned from Macau where he participated at the Fifth Ministerial Conference of the Forum for Economic and Trade Cooperation between China and Portuguese-speaking countries.

He noted that the trade balance between Mozambique and China is very unbalanced. “China is one of the main countries from where most of the products we consume" he said.

The Mozambican delegation to the Macau Forum was led by Prime Minister, Carlos Agostinho do Rosario, with the participation of 14 local entrepreneurs from sectors such as agro-processing, tourism, consulting and other services.

On the sidelines of the forum the Mozambican entrepreneurs held over three meetings and reached agreements with their Chinese counterparts.

TANZANIA AND MOROCCO INK DEVELOPMENT ACCORDS

Tanzania and Morocco have signed 21 cooperation agreements regarding transport, tourism, agriculture, mineral, cement and bilateral cooperation.

A statement from the Tanzanian State House on Monday revealed that the accords were signed on Sunday before President John Magufuli and visiting Moroccan monarch Mohammed VI. The agreements also include cooperation in foreign relations, security, finance, banking and insurance, infrastructural development.

The King of Morocco promised Tanzania that his country would construct a new mosque in Dar es Salaam, and a football stadium in the town of Dodoma. King Mohammed VI will on Tuesday visit the site for the proposed mosque, accompanied by the Tanzanian Prime Minister. “These contracts open up a new chapter of cooperation between the two countries” said President Magufuli shortly after the signing.

Moroccan Foreign Affairs Minister Mr. Selahddine Mezouar said the two countries are on the verge of entering a crucial period in their foreign cooperation and expressed confidence that the rapprochement between Rabat and Dar es Salaam would grow from strength to strength.

In another development the President of Morocco’s business community, Ms. Miriem Bensalah has expressed the willingness to work with Tanzania in establishing viable trade relations.

The Moroccan monarch's trip to Tanzania is part of his tour of East Africa to shore up diplomatic and economic cooperation from countries in the region. He began his tour in Rwanda last week.

ROLLS ROYCE OPENS CAPE TOWN MANUFACTURING PLANT

Rolls-Royce on Thursday opened its Cape Town-based manufacturing plant for the engines that will power Transnet’s multibillion-rand rolling stock tender. This will allow for the only SA-based assembly of locomotive engines for the contract, which still faces some uncertainty over issues of localisation requirements.

MTU SA, a unit of Rolls-Royce Power Systems, will assemble 212 of the 232 locomotive diesel engines being procured by Transnet through the China Rolling Stock Corporation. The facility was subject to a R60m upgrade for manufacturing, with the engines to be delivered to a Durban-based plant for installation, MTU SA said on Thursday.

The state-owned logistics group has given the assurance it will audit local content for the 1,064 locomotives being built by four international manufacturers — Bombardier, General Electric, and China North Rail and China South

Rail Zhuzhou, now merged into China Railway Rolling Stock Corporation. Transnet wants 55% to 60% local content for the diesel and electric locomotives respectively.

There is also some uncertainty over how Transnet will verify adherence to local content requirements for its multibillion-rand rolling stock tender with the majority of engines and locomotives being built offshore. MTU SA CEO Andrea Nono said on Thursday MTU SA was working closely with the Department of Trade and Industry on verification issues. The plant would allow for the only localisation of engine manufacturing for the project, along with emphasis on training of MTU staff. "The key to the whole thing is to up-skill the people. To have the skills transfer going into the future (is to invest in) brain capital," she said.

The department and the Treasury are currently engaged on issues of who pays for verification and auditing of local content, over some mismatch of legislation. The South African Bureau of Standards is for the first time conducting this verification, but did not immediately respond to queries on Thursday.

Estimates

Business Day understands that verification per company costs about R3m — which is prohibitively expensive for smaller suppliers.

Hishaam Emeran, Passenger Rail Agency of SA’s general manager of strategic network planning, said during a panel discussion on Wednesday the modernisation of SA’s railways was the largest such project globally. The modernisation aims to address years of under-investment in the sector. Emeran said 86% of Prasa’s signalling system was functional, but obsolete.

EGYPT-KENYA TRADE REACHED $513m IN 2015

The flow of trade between Egypt and Kenya reached $513 million in 2015, the Egyptian Trade Minister Tarek Qabil stated on Wednesday. He added that the Egyptian exports to Kenya were estimated at $239 million.

Qabil described the level of trade remains poor given the deep relations between the two countries. The minister was speaking to the Kenyan Deputy President William Ruto during a meeting on the sidelines of the 19th Summit of COMESA Heads of State and Government. The meeting was attended by the Kenyan Cabinet Secretary for Foreign Affairs, Amina Mohamed. The Egyptian delegation is headed by Ibrahim Mahlab, the Presidential Assistant for National and Strategic Projects.

Minister Qabil noted that the meeting comes as a follow up to the trade agreement signed between Egypt and Kenya during the sixth round of the Egyptian-Kenya Joint Committee. The agreement targets enhancing intra-trade and mutual investments between Egypt and Kenya. He asserted that his ministry is currently preparing to hold the first meeting of Egypt-Kenya joint trade committee in Cairo in the next few weeks.

Qabil clarified that the meeting discussed the importance of enlarging mutual economic cooperation between the two states in the future notably in industrial fields through building and managing industrial zones and area, establishing centres for industrial information, and sharing expertise in the technical training field.

ANGOLA IS SEVENTH-BIGGEST DESTINATION FOR FOREIGN INVESTMENT IN AFRICA IN 2015

Angola was the seventh biggest destination for foreign direct investment (FDI) in Africa in 2015, according to the Africa Investment Report 2016 published by the Financial Times. Angola attracted foreign investment projects worth US$2.7 billion in 2015, absorbing 4% of the total funds invested in Africa.

The biggest foreign investor in Angola was French oil company Total E&P, with US$2.2 billion, which became the third biggest foreign investor in the whole of Africa.

After Egypt (US$14.5 billion) came Nigeria (US$8.6 billion), Mozambique (US$5.1 billion), South Africa (US$4.7 billion), Morocco (US$4.5 billion), Ivory Coast (US$3.5 billion) and Angola (US$2.7 billion). The study showed that 495 companies invested in Africa, an increase of 6 % compared to 2014. Although investments have diversified the extractive industries still topped the list of FDI, accounting for 23% of total foreign direct investment.

The biggest number of projects was focused on South Africa, which attracted 118 investment projects, or 17% of the total by number. This was followed by Kenya (12% of projects), Morocco (10%), Egypt (8%), Nigeria (7%), Ghana (6%), Mozambique (4%), Ethiopia (4%), Ivory Coast (4%), Tanzania (3%) and Uganda (3%).

EU-AFRICA TALKS POSE QUESTIONS ON AID AND SECURITY

Later this week in Brussels, EU leaders will be discussing forthcoming deals with a handful of African states. With repressive regimes like Sudan demanding that the EU finance border controls, leaders appear increasingly willing to do almost anything to stop people from crossing the Mediterranean to reach Italy. Last November, Sudan’s foreign minister Ibrahim Ghandour said the EU should help pay to keep migrants from crossing its borders into Libya and Egypt.

A few months later, it sent the EU commission a wish list of demands. Sudan requested the EU pay for "computers, cameras, scanners, servers, cars, aircraft" at 17 crossing points along its borders under a programme that is part financed by the European Development Fund. "In principle yes but aircraft unlikely," responded the commission, in a document that can be found on the commission's website. Sudan's president Omar al-Bashir is wanted by the International Criminal Court for genocide and crimes against humanity. The country's crossing points are also patrolled by the notorious Sudanese government militia, the Rapid Support Force (RSF). The RSF, which is also part of Sudan's national and intelligence security services, includes men who fought in Darfur with the Janjaweed, a militia of Sudanese Arab tribes that is now part of the RSF. Mohamed Hamdan, a warlord often referred to as Hametti, commands the RSF.

In August, he said his forces had arrested 20,000 migrants in the company of human traffickers near the border with Libya. The traffickers had confiscated some of his weapons and vehicles, he said. Hametti then demanded the EU replace them. "We are hard at work to aid Europe in containing the flow of migrants, and if our valuable efforts are not well appreciated, we will open the desert to migrants," he warned. The EU commission quickly issued a statement denying it had offered the RSF any help to begin with.

No direct financial support

The official line from the commission is that it does not give any "direct financial support" to governments like Sudan. But it can, if it so chooses, provide "technical assistance" and "equipment" to customs and police bodies in repressive states like Sudan under a 2014 programme known as the Khartoum Process. The programme is financed from a variety of sources, including the European Development Fund regional programme for East Africa. An EU official said none of the requests by Sudan have been met but would not entirely rule out the possibility either. The demands were made as part of a broader €40 million package under the so-called European Union Africa Trust Fund.

European Parliament resolution

Sudan is steeped in blood. Hundreds of thousands of people have fled, with over 3 million displaced internally, given ongoing conflicts like in Darfur. Earlier this month, the European Parliament passed a resolution condemning Sudan for widespread human rights abuse. The list of accusations includes chemical weapon attacks on civilians, extrajudicial killings, sexual violence, and harsh crackdowns on any opposition.

Given the abuses, the EU parliament asked the commission to monitor its development assistance in Sudan so as not to provide "any direct or indirect support to local militias". But with close to 150,000 people having left the north Africa coast to reach Italy so far this year alone, policy makers are under intense pressure to sort deals with the regimes to slow the flows and crack down on smugglers.

In 2015, EU said it was prepared to "use all policies and tools" to develop a new approach to migration in

Africa.

€100 million aid package

A year later in April, EU development commissioner Neven Mimica went to Sudan, met its ministry of interior, and then announced a €100 million aid package for the country. "Development and security go hand in hand," he later said. An activist in Sudan, who asked not to be name, told EU observer in July that the EU's engagement with the regime is only making life more difficult. "It's not adding to the development in any way, it's not going to change the economic situation because there is a high rate of corruption in the country," noted the contact. The UK-based NGO Saferworld made similar comments in August.

"The EU is in essence providing these repressive regimes with a cloak of international legitimacy at a time when more scrutiny on their domestic policies is needed," wrote Kloe Tricot O'Farrell, the NGO's EU advocacy officer.