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Plenty of life left in African equity markets

In 2009 there was a marked divergence between the performance of the larger emerging markets (up 74.5 percent) and the G7 markets (up 24.2 percent) relative to frontier markets (up 7 percent) and Africa (down 6.9 percent) making 2009 the second consecutive year in which African equities have underperformed most other regions of the world.

This was largely liquidity driven as investors faced with near-zero interest rates searched for higher yields among the larger, more liquid, stocks and markets. However there remained a premium attached to liquidity as investors sought to protect themselves in the event that risky positions had to be unwound quickly, resulting in a focus on the larger stocks and markets. In such an environment, our smaller African markets were doomed to underperform.

It is increasingly clear that we are observing some tectonic shifts in the structure of the global economy. Today about 45 percent of the world's economy has a deficit of 10 percent or more, most concentrated in the advanced economies. In our view, the outlook for the advanced economies remains subdued with the current slowdown likely to prove to be structural rather than cyclical. Confronted with this, investors have turned to the emerging markets to deliver higher "yield".

While faster growth in the Bric countries appears to have temporarily stepped into the breach opened by the slowdown in the US and Europe, this growth is likely to soon face significant headwinds. The Achilles' heel of the Bric economies is their dependence on export-led growth. With busted consumer markets in the US and Europe, it is unlikely that the Bric countries can keep their "factory-to-the-world" economies grow-

Equity Returns to Regional Markets in US Dollars

	YEAR TO 31 DEC 2009	2 MONTHS TO 28 FEB 2009
Sub-Saharan Africa (excluding South Africa and Zimbabwe)	-6.9%	4.7%
MSCI Emerging Markets	74.5%	-5.4%
MSCI Frontier Markets	7.0%	3.0%
MSCI G7 Index	24.3%	-2.5%
MSCI World Index	27.0%	-3.0%
MSCI Eastern Europe	79.3%	-3.5%
MSCI Latin America	98.1%	-5.2%
MSCI Asia	70.3%	-6.2%

Equity Returns to Sub-Saharan Africa by Country

Botswana	17.5%	4.0%
Cote D'Ivoire	-24.9%	0.6%
Ghana	-52.3%	2.9%
Kenya	-2.1%	15.1%
Malawi	-17.3%	-1.3%
Mauritius	51.1%	3.7%
Namibia	22.9%	1.3%
Nigeria	-38.7%	11.9%
Tanzania	-4.7%	-0.9%
Uganda	-4.6%	5.4%
Zambia	17.7%	-5.9%
Zimbabwe	128.4%	-3.5%

Source: Duet Victoire, MSCI

ing for much longer. Although Bric governments are attempting to lift domestic consumption with enhanced fiscal measures, wages and incomes are likely to be too low to support the level of demand needed to absorb their surplus industrial capacity.

We believe that Africa is likely to offer sanctuary when investors finally begin to focus on the fundamental performance of companies and economies. African growth has never been predicated on exports and has remained robust despite the global slowdown. Corporate earnings remain strong with average earnings per share growth for 2008: 32 percent, 2009: 8 percent and forecast 2010: 22 percent.

African equities trade on a P/E 2010 of 10.1x relative to 17x for emerging markets and 20x for advanced economies. The valuation differential between Africa and other emerging

markets is not a reflection of any fundamental difference in economic outlook. The IMF World Economic Outlook issued on 26 January projected global growth in 2010 at 3.9 percent, advanced economies: 2.1 percent, emerging markets 6.0 percent and Africa: 4.3 percent.

The investment case for Africa remains intact and today our markets offer rare opportunities to buy stocks with double digit earnings growth and yet trading on single digit P/E ratings.

We believe that the robust state of economic growth in Africa, the rising consumption power of an emergent middle class, the advantageous population demographics of the continent and the low valuation of its equity markets will eventually result in a re-rating of our markets.

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