M&A in Africa: Bleak skies overhead, but the future looks brighter - Part 2

Part 1 of this article looked at the mergers and acquisitions market in South Africa; this part will explore M&A conditions in other parts of the continent.

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Nigeria

Going against the downward trend, dealmaking in Nigeria increased by 44% with 26 deals in H1 2020 compared to 18 in H1 2019. Total deal value went down 46% to US$204mn in the first half of 2020, from $375mn in H1 2019 (but this is likely because most of the deals listed for H1 2020 have no disclosed deal value.) The number of cross border deals increased by 18% in comparison to the first half of 2019, while domestic deals were also up by 86% year-on-year.

Half of the total M&A deals in Nigeria were cross border transactions, totalling $40mn. Deals were evenly distributed among industries, with financials and high technology recording two inbound deals each and the industrials sector recording two outbound M&A deals.

The $21mn acquisition of Interporto di Venezia SpA in March 2020 by an Orlean Invest Holding subsidiary for $21mn, was the biggest cross border deal in Nigeria in the first half of 2020.

Wildu du Plessis, Head of Africa for Baker McKenzie in Johannesburg, notes that policy and economic uncertainty, including lack of access to foreign exchange, stalled dealmaking in Nigeria recent years. However, the Central Bank of

Nigeria introduced a foreign exchange window a few years ago, allowing trading at market-determined rates, which boosted the supply of foreign exchange and encouraged dealmakers. The government was also looking at more business-friendly legislation. The Nigerian economy was already impacted quite severely by the disruption in oil markets in recent years, but Covid-19 has added extensive damage to the economy, and this will undoubtedly impact negatively on M&A numbers going forward."

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17 Jul 2020

Kenya

Kenya announced a 50% drop in volume and a 51% decline in value in M&A deals in H1 2020 compared to H1 2019. There were 15 M&A deals in H1 2020 worth $129mn. Twelve of the 15 deals in the first half of 2020 were cross border transactions.

For inbound cross border deals, the focus was on media and entertainment, with three deals, as well as the financials, retail, and materials sectors, recording two deals each. There was one outbound transaction, which had the highest deal value of all cross-border deals.

Bujagali Energy Ltd's $39mn sale to Jubilee Holdings was the highest outbound cross-border transaction of the period, while commercial International Bank Egypt's acquisition of Mayfair Bank for $35mn was the top inbound cross border deal.

Du Plessis says, "Kenya has long been considered East Africa's investment hub, attracting some high-value M&A deals in the last few years. However, the country's post-pandemic economy will take some time to recover. It could be that its telecommunications sector, which has a well-developed market for mobile money services, will boost investment opportunities in a post Covid-19 market."

Distressed M&A: You do not have to sell cheaply, but you must move quickly - Part 1

Tony Lee and Justin Balkin 15 Jul 2020

Sub-Saharan Africa

In the Sub-Saharan Africa (SSA) region, M&A volume decreased 24% to 254 deals, compared to 338 deals for the same period last year. Total value of M&A deals was down 56% to $6.8bn in the first half of 2020, compared to $15.3bn in H1

2019. The majority of deals in the first half of this year were cross border, with 160 transactions totalling $4.8bn.

There were 89 inbound deals in SSA during this period, valued at $1.1bn. The primary target was the materials industry with 24 deals, totalling $305mn. The United Kingdom and the United States were the primary investors with 17 and 15 deals, worth $161mn and $658mn, respectively. The region also reported 49 outbound transactions worth $3.6bn. The industrials sector was the most targeted with nine deals, while the materials and telecommunications sectors had the biggest deal values, totalling $1bn each.

Du Plessis explains, “There is broad consensus that 2020 and 2021 will be very difficult years across all sectors in Africa, with severe humanitarian challenges, reduced demand across most sectors, constrained domestic economic activity, weaker currencies, supply chain disruptions and increased regulations and restrictions causing business disruption. Some sectors will battle to recover while others, such the technology sector, are likely to be better able to adapt and take advantage of current conditions.”

“M&A activity in Africa going forward could come from distressed M&A transactions. Buyers with strong market positions or balance sheets and an appetite for risk could seek to capitalise on the opportunities available in the most challenged sectors, such as retail, transport, energy, construction, hospitality and leisure, as well as the opportunities in the sectors that have performed well during the pandemic, such as those in technology and healthcare and Fintech. The oil & gas industry and non-core infrastructure sectors are also facing significant stress, which might produce opportunities for buyers. The bottom line is that there will be very few sectors who have not been badly affected by the pandemic, but this could produce opportunities for buyers who have done their homework and have an appetite for risk,” Du Plessis notes.

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He says that current developments in terms of the continent’s trade relationships also point to improved investment opportunities in Africa in the medium term. Shifting global trade patterns have seen the major players turn to Africa to find new avenues for trade and investment. Examples include the recent Economic Partnership Agreements signed with the UK to govern bilateral trade with certain African countries after Brexit; China’s continued interest in Africa, especially in terms of the Belt and Road Initiative (which might endure short term slowdowns but offers long term gains in digital programmes and sustainability); the recent United States Africa strategy, which has a renewed focus on trade and investment between the two regions; the European Commission’s Comprehensive Strategy with Africa, published after Covid-19 and positioning the EU as an close ally of Africa; and the African Continental Free Trade Area agreement, postponed to 2021 due to Covid-19, and intended to streamline intra-African trade across the continent and reduce the continent’s dependence on foreign investors.

“So, while Africa, alongside the rest of the world, will be weathering the devastating effects of Covid-19 for some time, the future M&A forecast looks brighter, with good investment opportunities becoming clearer across the continent once the pandemic eases,” Du Plessis adds.

Read Part 1 of this article here.