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SA Companies in Africa

MAGNETIC NORTH

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Africa has proven fertile ground for many SA companies, but the risks are high, as others have found.

In his business travels through Africa, MTN International MD Lazarus Zim can spend up to 30 hours a week in airlines zigzagging between countries, often detouring through Europe because there are no direct flights to places that would be just an hour or two's flying away. "And that's before I do business," he quips.

When Murray & Roberts built a 400 m oil quay fro Angola's Luanda harbour, it was too expensive to build in the war-wracked country so the company precast the 68 concrete slabs in Saldanha Bay and shipped the 300 t chunks in batches to Luanda.

When the Ivory Coast slid into civil war four months ago, AngolGold lost its logistical supply links with its mines in landlocked Mali through Abidjan, the Ivorian capital and nearest seaport. The breakdown forced SA's largest mining company to forge new freight routes through Ghana and Senegal.

"Things can change dramatically overnight in Africa," observes AngloGold East & West Africa operations head Thys Sabbagha. "The thing is not to avoid risks but to manage them."

Most people doing business in Africa can regale the listener with astonishing tales of frustration, hardship and dogged endeavour. Yet such obstacles haven't stopped SA companies from spreading ever northwards in search of fortune.

SA's championing of the New Partnership for Africa's Development (Nepad) has accelerated the drive for investment in Africa. MTN's US$285m cellular entry into Nigeria, Eskom's ambitious plans for a cross-continental powergrid, Multi-Choice's satellite TV networks spanning 44 countries, SABMiller's thrust into Africa and the breakneck spread of Shoprite stores across 14 countries show how serious SA business is about Africa.

Why not? With returns routinely over 30% - in some cases 50%-60% - compared with the 16%-20% of SA, Africa's allure can be irresistible. Yet, for many it is a siren's song. Scores of unheralded ventures end up on the rocks, or companies find the going too tough and give up.

So, why do some succeed and others fail?

“Before we go into a country we look carefully at its political stability and regulatory framework,” says Eskom Enterprises MD Duncan Mbonyana. Eskom Enterprises, formed just over three years ago, is the group’s expansion arm into Africa, and with turnover of R2bn last year already accounts for 7% of group turnover.

Poor regulation and insufficient technical data in Africa require scrupulous due diligence and best practice before taking the plunge. Then they must be prepared for the long haul, “at least 10 years”, Mbonyana says.

The tide of privatisation sweeping the continent offers hardy SA corporates a smorgasbord of potentially lucrative contracts. But poor governance – both corporate and political – can make such deals hazardous. Eskom itself has pulled out of bids – notably in Cameroon and Senegal – the night before closure, Mbonyana says, “because we weren’t happy with the regulatory framework”.

Murray & Roberts has been working the continent since the 1950s and is engaged in 15 countries. Two-third of its order book is offshore. But group CE Brian Bruce is not impressed with returns from most African projects the farther north he goes.

“If a road costs 100 units to build in SA, it might cost 350 units to build in Nigeria. In Botswana it could be 150 units and in Tanzania 200, he says. “That’s because we would have to import skills and train a workforce from scratch. And then we may have problems getting paid after completing the work.”

So why do it? Local construction companies have little choice. The SA market is too small and competitive to sustain growth, and the companies are generally too small to compete in the developed world.

Despite the disappointments, though, many projects have brought handsome returns. “We have made a fundamental strategic decision to participate in the developing world,” says Bruce.

MTN International is operating in Rwanda, Swaziland, Uganda and Cameroon, in addition to Nigeria, and is looking to expand in East and West Africa. Revenue rose to R2,97bn last year, 75% of it from Nigeria alone. But to make the Nigerian venture work, the company is having to roll out 3000 km of electricity cabling because there is no existing transmission to allow the cellular base stations to talk. Despite this, the operation returned a profit of $42m in the first half of this year – “pretty good considering we were expecting profit only in 2004”, says Zim.

Problems? Oh, the usual: irregular and overbooked airline flights; bad roads; unreliable electricity that requires back-up generators; and official corruption. “The temptation is always there. But we’re not into bribes and backhanders – and guess what, it’s possible to do business without it,” says Zim. “Once you’ve given or received a bribe, word spreads fast that you can be bought.”

The issue of corruption elicited widely divergent responses from the 15 executives and analysts interviewed. Some insisted that corruption was endemic, others said they rarely encountered it. One said he knew of foreigners initiating corruption to ingratiate themselves with African officials and steal a march on their competitors.

The “arrogance” label that often attaches to SA companies comes with being the biggest economy on the continent. Though many underdeveloped countries are keen for SA companies to invest, they fear SA’s economic muscle, that they will be “recolonised”.

Some companies reinforce that image, says Sim Tshablala, MD of Stanbic Africa, Standard Bank’s continental trading arm. “They tend to ‘show-and-tell’ instead of ‘discuss-and-lead’.”

Stanbic is by far the biggest SA banker in Africa, though it still trails long-entrenched multinationals such as Standard Chartered and Barclays. Stanbic is active in 17 countries, employs about 4 000 people and has expected earnings of R500m this year – a return on investment in excess of 30%. Tshabalala says Stanbic Africa accounts for about 9% of group headline earnings.

The more SA companies move into Africa, the more they draw SA banks in with them - hence the growing involvement of the other three major SA banks – Absa, FNB and Nedbank – in Africa. Nedbank recently hired Rocko Rossouw to head its international division. Rossouw as head of Stanbic, led SA banking into Africa in the 1990s.

To succeed in the rest of Africa, he says, SA banks cannot afford to focus solely on the top end, or corporate side, of the market; they must offer a full range of services. If a bank doesn’t have a broad retail depositor base, it will struggle to meet the needs of corporate borrowers – as Stanbic found when it couldn’t lend to SA Breweries and Unilever in Kenya a few years ago.

SA companies must take seriously issues of corruption and arrogance if they want to establish a long-term investment in Africa. These factors affect reputation, and without a good reputation you can’t expect to keep doing business in Africa.

“Business on the continent is a *relationship*, not just a *transaction*, says Eskom’s Mbonyana. “If you miss the relationship, you will have endless trouble with the transaction.”

Because many African countries have weak regulation and corporate governance, state ministries and corporate chiefs have developed close relationships that go beyond simple policy dynamics and amount to operational collusion. It is often hard to differentiate between the company and the state.

“It can happen overnight that an alignment changes and you are out of the deal: checkmate,” says Mbonyana.

Stanbic’s Tshabalala believes SA companies have a competitive advantage on the continent because of superior infrastructure, skills and education and also because they are steeped in resource management ideally suited to Africa’s commodity-based economies.

In addition, SA’s strong legal regime gives local companies disciplinary advantages in countries that are still struggling to develop suitable regulation.

But Stanbic’s Malawian-born corporate business development manager, Arson Molala, says SA companies mustn’t think this gives them a fiat on the continent. He recalls how, when he represented SA Airways under then-CEO Coleman Andrews in the late 1990s, he battled with little success for the SA carrier’s attempts to take over African airlines. “I managed to close only four of about 20 negotiations because they saw us as colonists trying to take money out of their countries.”

SABMiller is rightly seen as one of the most successful SA operators in Africa. Though strictly speaking it is now a British-American multinational, it still plans and conducts its African – and Asian – operations from Johannesburg.

And it’s worth comparing its African and Asian business. In China, which will overtake the US as the world’s biggest beer consumer this year, SABMiller is now the biggest foreign brewer, supplying about 12% of the market. Yet China contributes less to group earnings than does Africa. (The two markets together account for 15%-17%.) “That’s because Chinese margins and prices are ridiculously low,” says Africa & Asia MD André Parker. “Africa has smaller volumes, higher prices.”

SAB is involved in at least seven African countries and has cross-share-holding relations with the French Castel group in Francophone nations. Parker regards the Asian operations – China, Russia and India – as a strategic investment. “We get in and build brands in hopes that the consumer will become more affluent over time. Africa offers a different potential: markets are poor and small. It can grow only if there is good governance, the wars stop and people are able to raise their earnings.”