Analysis and Strategy

Africa Rising

The Last Consumer Frontier

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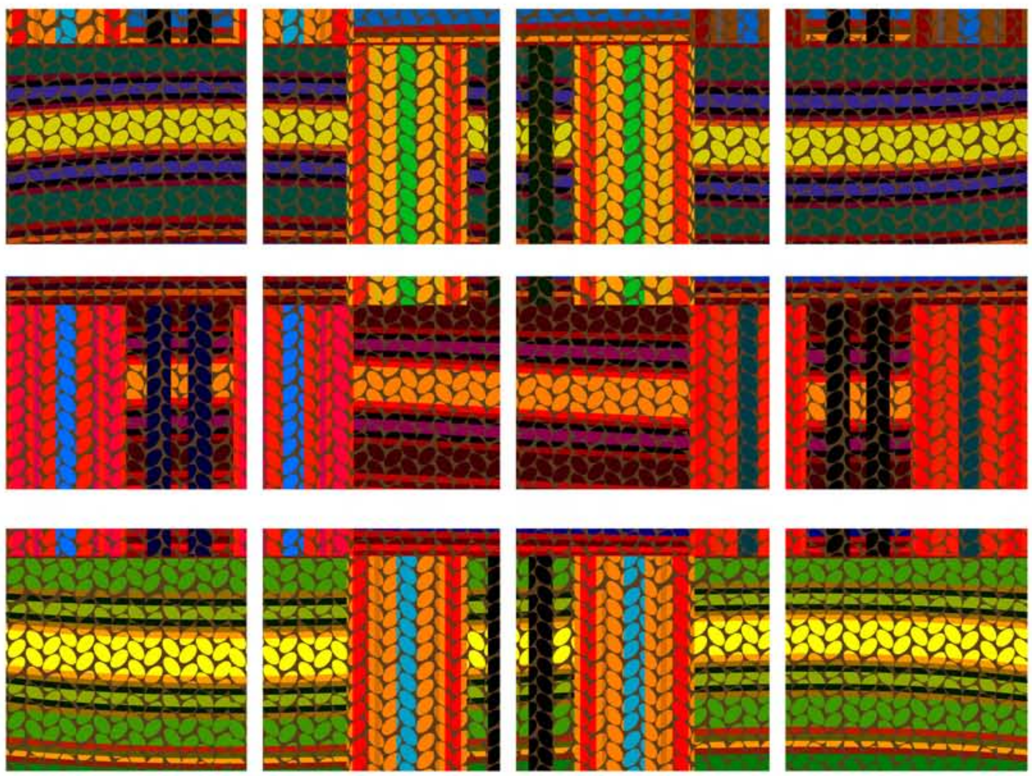
Initiation of Coverage – As a continuation of our investment theme driven by the emerging consumer in Africa, we are initiating coverage on two large cap companies in the FMCG sector. One company has a high – octane potential from Sub-Saharan Africa and the second company is based in Southern Africa but with an outreach that spans the rest of Africa. Our coverage provides in-depth analysis of the companies, including growth and financials forecasts, overview of senior management and peer analysis. A must see report for any investor looking for a solid long term return in this emerging growth sector.

On a quarterly basis Nova Capital Africa Analytics, in addition to our continuing coverage, will initiate coverage on two additional stocks and are available to subscription based clients only.

Section 1

Macro Analysis

West Africa and Southern Africa
Political and Economic Trends and Outlook



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Africa Macro | West Africa and Southern Africa

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Political and Economic Trends & Outlook

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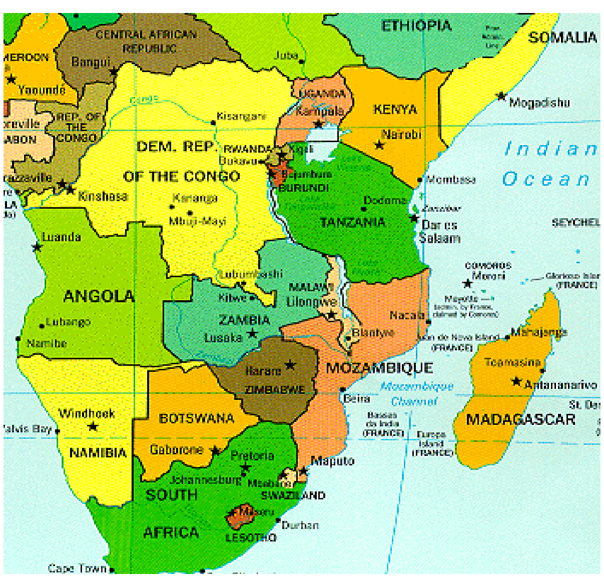
Map of West Africa

Map of Southern Africa



HIGHLIGHTS

Africa's Fastest Growing Economies. West Africa is experiencing rapid economic growth owing in part to the strengthening of oil prices in 2011. Most oil exporting economies have the advantage of using the buoyancy of global oil markets as an opportunity to return to fiscal surpluses and rebuild reserves. There are several new oil producers in the region including Sierra Leone and Ghana. In West Africa, MNCs tend to expand into countries that share major economic attributes such as language, legal norms and business culture.

The Giant of Africa. Within the context of Africa but also within the wider sect of frontier emerging economies, Nigeria has become one of a handful of key global economies to watch in the coming decade. Nigeria is currently on record as Africa's second-largest economy, and one of the fastest growing economies on the continent and in the world. It is only a matter of a year or two before Nigeria becomes Africa's largest economy. Nigeria is expected to rebase its economy in 2012 in order to provide an accurate measure of its actual size. When neighbouring Ghana rebased its economy in 2010 it was found to be 60% larger than previously estimated jumping from USD 18.0bn to USD 31.0bn. Nigeria is expected to have a similar jump once rebasing is completed this year. Rebasing adds different weighting on sectors that have changed over the last 30 years.

A land of new opportunities. From a broader perspective, the Southern African region is experiencing positive growth on the back of various macro-economic factors. Below are economic summaries of some of the countries in the region. Zambia for example has registered solid in the past year (GDP growth c7.0% in 2010, marking twelve consecutive years of positive GDP growth averaging 5.1% per annum over the period). The recovery in global trade and strong demand for commodities from India, China and Brazil has supported metal prices (copper).

Africa's Leading Economy. South Africa is regarded as SSA's most developed nation, and presently remains the largest economy in the region rivalled only by Nigeria. The country holds a prominent position within the region's economic institutions and is a member of the African Union, Southern African Customs Union (SACU), Southern African Development Community (SADC), and New Partnership for African Development. Internationally, South Africa has also been expanding its presence and involvement with the International Monetary Fund, World Bank and G-20 and G-24. Furthermore, hosting the 2010 World Cup also helped South Africa grow its profile internationally, and the country is interested in expanding alliances and partnerships with emerging economies such as BRIC (Brazil, Russia, India and China) and IBSA (India, Brazil, South Africa Trilateral Cooperation Forum).

WEST AFRICA

Africa's Fastest Growing Economies

West Africa is experiencing rapid economic growth owing in part to the strengthening of oil prices in 2011. Most oil exporting economies have the advantage of using the buoyancy of global oil markets as an opportunity to return to fiscal surpluses and rebuild reserves. There are several new oil producers in the region including Sierra Leone and Ghana. In West Africa, MNCs tend to expand into countries that share major economic attributes such as language, legal norms and business culture. Nigeria is the dominant base of expansion in the region. Its economy is considerably larger than other countries in the region: three times larger than the other 14 member states of the Economic Community of West African States (ECOWAS) combined. However, Senegal, Côte d'Ivoire, and Togo are emerging as new hubs for development.

Ghana

Over the next year Ghana is expected to remain the fastest growing economy in SSA (GDP growth rate of 13.75% in 2011). This is largely due to the commencement of oil production at the Jubilee Oil fields. In addition to oil Ghana is a leading exporter of gold, cocoa, timber, bauxite, and diamonds which accounts for much of the country's foreign exchange. With a large population in excess of 20.0m and with one of the region's most stable political systems, Ghana's business environment is considered to be one of the region's most encouraging. There are few political or security risks that come with investing in Ghana. One of the most serious risks was the conflict in neighbouring Côte d'Ivoire. With a return to civilian rule and an end to the civil conflict Ghana presents a health business climate. We therefore anticipate significant investment into the consumer sector over the next few years. Ghana is already a major mobile phone market in Africa and will continue to demand other FMCG consumer goods and services consistent with its size and rapidly growing economy.

Côte d'Ivoire

Côte d'Ivoire was one of the more prosperous countries in West Africa. Marred by civil conflict over the last decade the country is working now to emerge from a turbulent conflict that sent an estimated 35% of private industry out of business. With two national elections behind them, the hope for political stability has improved. Côte d'Ivoire is expected to make a strong recovery over the next few years, with over 7% growth in 2011. International sanctions have been removed opening up avenues for aid and a minor debt relief package from development partners. The primary export from Côte d'Ivoire is cocoa. It remains the world's number one producer of the commodity. In addition to cocoa Côte d'Ivoire has oil wealth discovered in the late 1970's, and downstream capacity with a refinery in Abidjan. Côte d'Ivoire is developing strong partnerships with the regional block, ECOWAS, as well as developing nations in Asia. The recovery in Côte d'Ivoire is expected to drive consumer spending and increase consumption in this country.

Senegal

The Senegalese Republic is one of the most politically stable countries in the ECOWAS regional block. The primary security instability in the country is due to an armed rebellion in the Casamance region that resulted in small clashes in 2010 with security forces. Currently, the country is experiencing growth at just over 4% annually. Its primary objective is increase growth levels by increasing power supply and improving infrastructure. Senegal is home to the central bank of the West African currency union consisting of Francophone states in the region. It is also home to regional air traffic hub in Dakar, and one of the region's most developed tourism industries. The difficulties in European economies hurt some of Senegal's core exports of groundnuts, phosphates and fish as well as affecting remittances from Senegalese nationals in France and in other European countries. Stability in Senegal, by housing headquarters of banks that serve the Francophone currency zone in West Africa still make them an attractive destination for foreign capital.

ECOWAS

The Economic Community of West African States (ECOWAS) is one of the strongest regional economic blocks on the African continent. They have sought to increase multilateral ties and establish a common market for indigenous firms. Firms based in either of the fourteen member states and owned predominantly by nationals of a member state will have access to markets in all fourteen states. The success of ECOWAS in promoting political stability has reduced political and security risk in the region dramatically over the last decade. Unconstitutional transfers of power in the region are at an all-time low. Further civil conflicts in Côte d'Ivoire and political assassinations in Guinea-Bissau have not caused instability and conflict to spread but rather has been contained and addressed by regional leaders. The region has implemented plans to establish a borderless community among the fourteen members where nationals no longer need visa's to travel to other member states. They have also formed a regional military comprised of the armed forces of members that serve as part of the African Union's rapid action force. Regional leaders are regularly seeking ways to cooperate and move to address political instability between states and within states, monitoring elections, and brokering sustainable agreements with competing political elites to ensure respect for constitutional order.

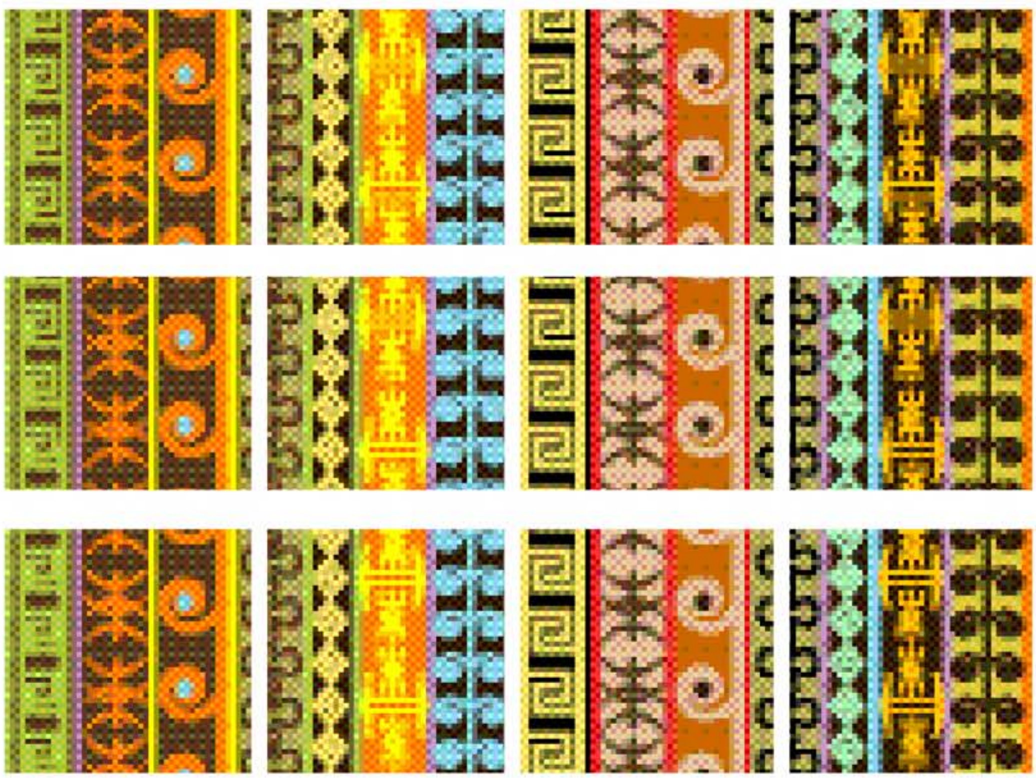
The work of ECOWAS has made the West African region one of the most promising regions for investment especially in the area of manufacturing consumer goods. Strategic partnerships with regional firms could give multinational companies access to the markets of all fourteen countries in the regional block. There is already a strong penetration of commercial interests across national boundaries including the banking, mobile phone and telecommunications industry. Financial services companies in Nigeria and Ghana have spread to many of the other countries in the region. In addition, EcoBank, the bank largely financed by ECOWAS, has been effective in providing retail and wholesale banking services. Currently, it is present in more African countries than any other bank, and is spread beyond ECOWAS 14 members into Central, Eastern, and Southern Africa, as well as Paris, London, and Dubai. It forms the largest banking network in all of Africa.

Section 2

Micro Analysis

Key Sectors Trends and Outlook

Consumer Sector: Is Africa the Last Consumer Frontier?



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Africa Micro | Consumer Sector

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Is Africa the Last Consumer Frontier?

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HIGHLIGHTS

A number of factors contribute to a rosy picture of Africa's consumer sector. We note that the continent's total GDP of USD 1.5 trillion is similar to that of Brazil, India or Russia, and it is expected to grow faster than most non-BRIC emerging markets. While instability still plagues some African nations, overall, political risk has substantially diminished over the past 20 years. In addition, constitutional order and democratic institutions are being consolidated, which are creating greater degrees of stability. The continent also continues to make significant strides through regional organizations that aim at integrating regions politically and economically, thereby promoting cooperation between countries.

A new consumer class is emerging so quickly that total consumer spending is expected to double by 2020. A comparison between population pyramids of the developed countries with that of developing nations clearly shows that there is a rapid increase in the number of young people in developing countries (<15 years) as a result of high birth rates. This implies that virtually all future world population growth will take place in developing countries. With population growth rates of 2.5% - 3.0%, the ballooning populations offer sturdier growth potential for African businesses. In five major countries alone (Algeria, Egypt, Morocco, Nigeria and South Africa), it is estimated that there will be 56.0 mm middleclass households with disposable incomes totaling more than USD 680.0 billion over the next eight years.

Rapid urbanization is also creating higher consumer density and fostering the development of retail networks. Over the last two decades the African population has become more urbanized. Analysts estimate that by 2050 almost two thirds of the population will live in cities, compared with 40% in 2010. According to urbanization trends elsewhere in the developing world, most national wealth will be consolidated in urban mega-cities. Overall, urbanization will in the long run lead African consumers to purchase more goods and services.

Multinationals are increasingly moving into Africa in search of opportunities to expand or offset losses elsewhere. Pedestal growth in sales volumes of consumer goods, and the inability of consumer demand to rise in much of the developed world, have all but impaired growth prospects for companies whose fortunes were tied primarily to consumption in the developed world. With developing nations set to account for the vast amount of increased consumer spending over the next decade, multinational firms are now required to maintain a presence throughout the entire developing world to remain on par with global competitors. Large multinationals, like Wal-Mart and Nestle, as a result turned to emerging markets to diversify their global presence. Overall, we believe that this opportunity for growth will be massive for companies that can overcome Africa's specific risks and obstacles.

Is Africa the Last Consumer Frontier?

It cannot go unnoticed that Africa is a transforming region with a significantly improved business environment. Home to some of the world's fastest growing economies, the world's newest country, South Sudan, and the birthplace of the Arab Spring, there have been monumental political and economic shifts throughout the region. As constitutional order and democratic institutions are being consolidated creating greater degrees of stability, the political outlook of the continent has vastly improved. The continent continues to make significant strides, through the vehicle of regional organizations to integrate both politically and economically, boasting bold new initiatives with more areas of cooperation between countries than ever before. In this, the success of common market initiatives throughout the continent has given Africa the potential to create a regional marketplace that could rival other major developing economies like India, Brazil, and China.

With a rapidly growing urbanizing population that is steadily getting richer, opportunities to expand in African frontier economies have never looked better. Significant development in infrastructure enables businesses and citizens to access consumer products that were previously uncommon - such as, mobile phones and consumer banking services. While the demand for consumer goods in the developed world is growing at a snail's pace, demand in developing economies has expanded rapidly. With consumers in the developed world, like their governments, being saddled with significant debt, it is likely to take a while before these trends change. The contrast of all the difficulties with sovereign debt and economic stagnation in the developed world alongside the positive growth and development in Africa, the shift in attention to this frontier may not only be natural but necessary.

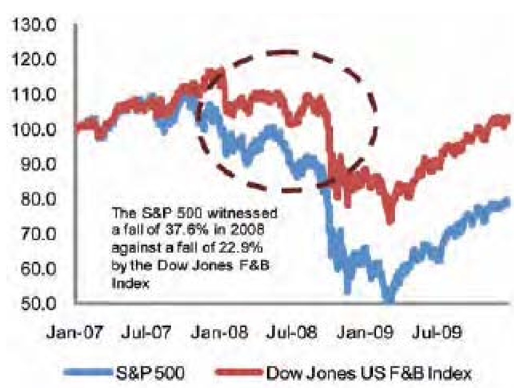
While Africa remains a relatively new destination in the consumer sector, we seek to evaluate two of the largest consumer markets in West and Southern Africa anchored by the two largest economies on the continent, Nigeria and South Africa, respectively, in order to guide investors to better navigate this region that appears to be bursting with opportunities. A key feature of frontier economies is a vast array of previously undeveloped markets and opportunities. The question remains - is Africa the last consumer frontier? Some key questions to answer are: Who are the major movers in consumer markets in these two regions? What are some of the prominent issues in the political landscape? What are the major challenges in the consumer goods sector? What are some of the crucial developments? Where are some of the best opportunities? What does the future look like for the consumer market sector?

Overview of Global FMCG Sector

Despite slow growth among developed nations, the global fast moving consumer goods sector (FMCG), which comprises farming, food production, distribution, retail and catering, was valued at USD 5.7trn in 2008 and is steadily growing. The industry is expected to increase at a compound annual growth rate (CAGR) of 3.5% to USD 7.0trn by 2014. In terms of structure, the industry is highly fragmented and the top players—Nestlé, Kraft Foods, Unilever and Cargill—account for less than 5.0% of the overall value. Some of the well known FMCG companies are Sara Lee, Reckitt Benckiser, Procter & Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi and Mars. While Europe retains the largest share in the global FMCG sector, followed by the USA, developing nations, led by China and India in Asia, are now emerging as a major contributor of raw material to the FMCG industry. India's FMCG market was valued at USD 182.0bn in 2007-08, while the food processing sector alone was worth USD 72.0bn in 2008. China's food processing sector increased by 13.6% from USD 44.0bn in 2007 to USD 50.0bn in 2008.

The effects of the global financial crisis (GFC) have had an adverse impact on most industries including the FMCG industry. The major problems faced by the industry were rising food prices, increasing transportation costs due to a rise in oil prices, and decline in consumer spending. Nevertheless, the industry has been slightly less affected when compared to other industries. This is mainly attributed to the fact that food products, a typically inelastic commodity, continue to be essential to consumers in spite of the global slowdown.

S&P 500 vs. Dow Jones US F&B Index (2007-2009)



A comparison between the S&P 500 and the Dow Jones US Food and Beverage Index in 2008 is testimony to the resilient nature of this industry. In 2008, the S&P 500 declined 37.6% against a fall of 22.9% by the Dow Jones US Food and Beverage Index.

Source: IMAP/ Bloomberg

Global Beer Industry

Beer is one of the world's biggest consumer goods categories and a staple product in the FMCG sector. Because of its centrality in the FMCG sector, it provides a useful benchmark for determining the growth trends of the industry as a whole. The global beer market is estimated to have grown by 1.6% in 2008 to reach a value of about USD 460.0bn. By 2013, the global beer market is forecast to have a value of USD 487.2 billion, with Europe accounting for 49.0% of the total value. Although Europe still remains the industry leader, the developing world has a strong and increasing presence in the global beer industry. According to *Canadean*, global beer consumption will top 2.0bn hl by 2013. Although beer consumption was affected by the global economic crisis, the global levels of growth are still relatively robust in part due to the developing countries which have shown the most significant growth projections led by Asia and Africa. In Asia, beer consumption is predicted to grow at a CAGR of 5.0% between 2009 and 2015 while

Section 3

Company Analysis: Initiation of Coverage

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