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Sectors to Watch Out for 2017

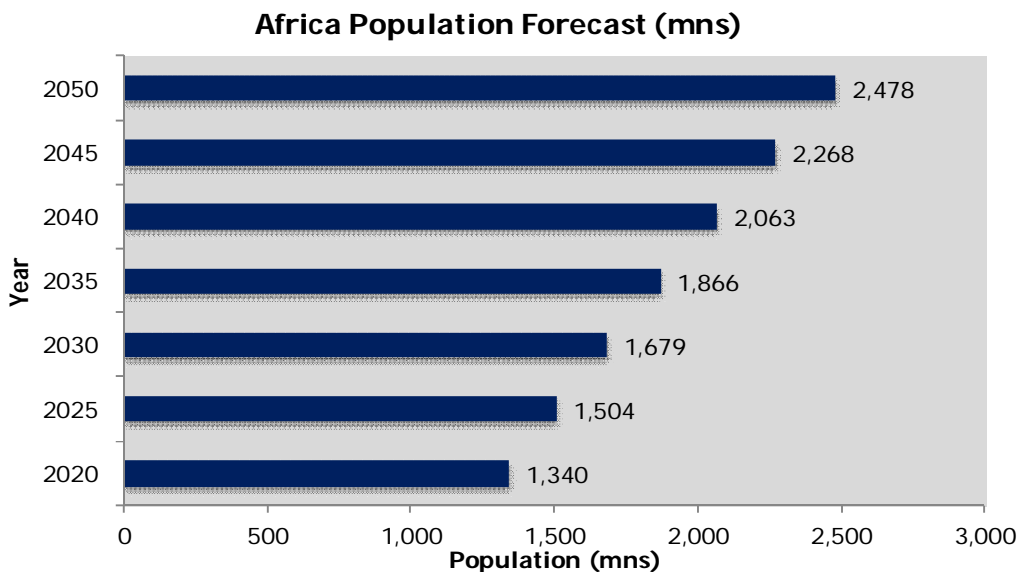
By Kenneth Ndlovu Analysts at Atlas Investing

While Mining and Oil and Gas sectors drove Sub Saharan Africa (SSA) growth in the past 15 years, Real Estate and Consumer sectors are poised to drive growth in the region, starting this year. Index providers such as Cloud Atlas Investing are capturing this growth through African ETFs to be listed on the Johannesburg Stock Exchange. East Africa is poised to be the leading region in growth terms for the next foreseeable future. In West Africa, Cote D'Ivoire could be the leading light and the central and south regions of the continent are poised to lag behind, mainly because of poor governance, corruption and high political risks associated with countries in those regions, for example, Zimbabwe, DRC and Mozambique.

Over the past decade, we have witnessed a rise in South African retail giants, for example Pick n Pay and Shoprite, expanding their operations in as many African countries. Shoprite is Africa's biggest retail outlet, with more than 2000 outlets in 15 African countries. Choppies, Botswana's largest retail outlet, has also gone into its own African adventure, expanding mostly into Southern African countries.

The paragraph above points out to the evidence of what could be happening in the background, in relation to economics and standards of living. Retail shops are more like the connection between producers and buyers or customers. A rapid growth in the retail sector is therefore as a direct impact of the improvement in the economic status of the ones that buy, which are the ordinary citizens. This improvement is also linked back to the producers themselves. These producers make the bulk of the consumer sector in the economy. We believe this sector will continue to thrive going into future and the reasons are outlined below. We will also give examples of companies that have done well over the past couple of years, in this sector and across the continent.

Africa Population Growth



Africa's population has been viewed as the continent's largest resource. By 2050, Africa is expected to be home to the world's largest population, estimated to be around 2.4 billion. The increasing population is, on its own, an incentive to the consumer and retail sectors, as it directly affects the consumption of goods and services.

Growth in Tertiary Education Qualifications

Africa has witnessed a continued rise in the number of graduates with tertiary qualifications. As more people get educated, they bring in more skills to the companies which positively affect the quality of the products and services. Skilled workers earn higher wages and develop the taste for quality when it comes to what they consume. They go for lifestyle brands and rent up market apartments. This has led to a rise in the lifestyle brands business, together with the real estate companies across the continent. The Real estate sector also benefits from the increasing population in Africa as more houses are needed to be built for the increasing demand. Everyone needs a place to sleep, eat and party!

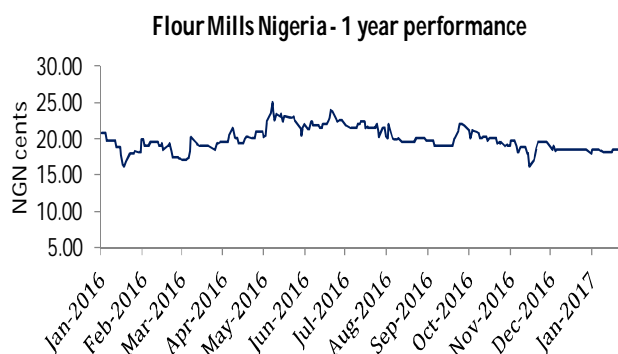
We give a glimpse into some of the companies in the sectors we have spoken about.

Shoprite JSE: SHPJ.J



Shoprite is Africa's largest retail outlet. Its share price has gained 31% in the past year to January 2017. The company has had a steady rise in its profit levels over the past 4 years, with a dividend yield of 2.5%.

Flour Mills of Nigeria NGSE: FLOURMI.LG



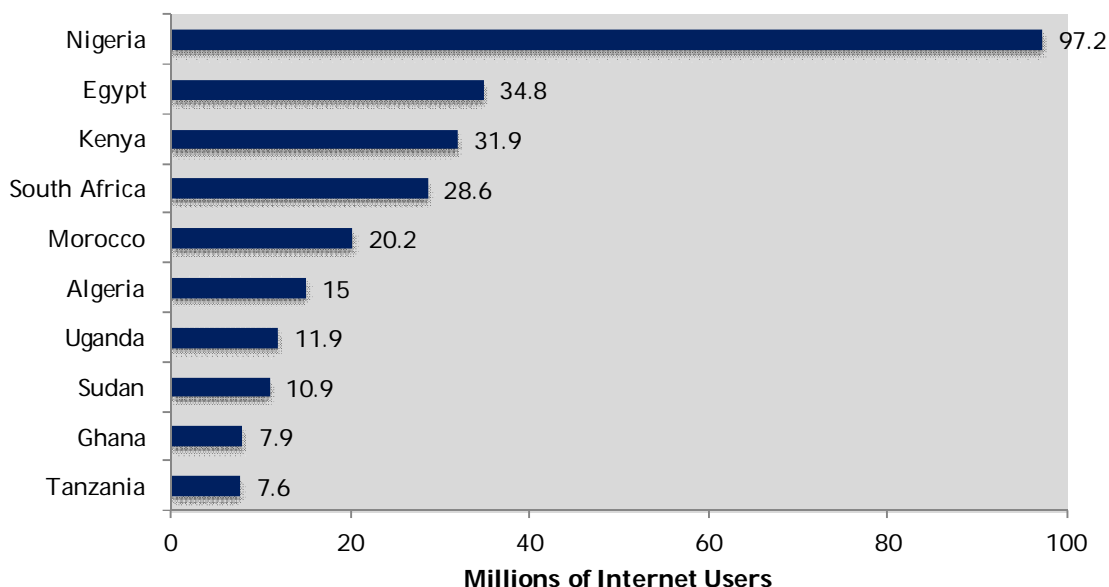
Flour Mills of Nigeria produces and distributes agriculture products for livestock and human consumption. Its share price has gained 2.78% in the past year to January 2017. The company's net income increased by 75% in 2016, with a dividend yield of 5.41%.

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Growing GDP/Capita

Whilst most African countries are forecasting a slight drop in GDP for 2016 due to a slump in commodity prices and weakening currencies, previous years have provided quite high figures. In 2015, Nigeria and South Africa were at \$481 billion and US\$315 billion, with a GDP per capita of \$2 548 and \$7 593, respectively. The continued rise in GDP per capita, buoyed by other African countries, such as Uganda, that are chasing the 'middle income status', has a positive influence on the consumers' consumption patterns.

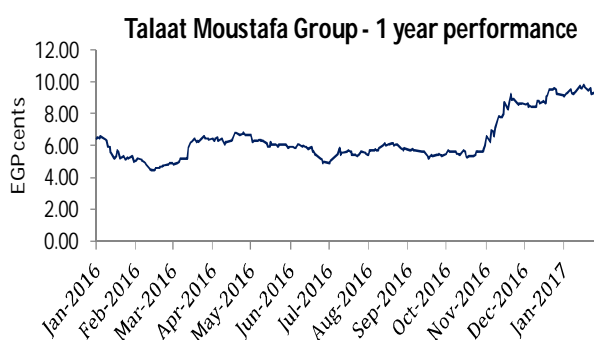
Increased Internet Connectivity



Source: Source: Internet World Stats

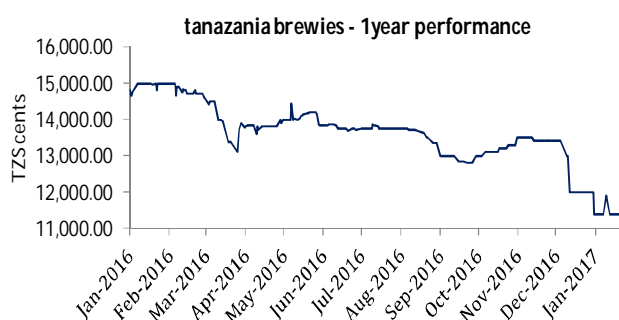
The continent's connectivity rate is increasing by each year, with a penetration rate above 20%. 2016 saw a growth in the telecommunications sector, with 3.9% growth in South Africa and 1.7% in Morocco. Nigeria still tops the number of internet users in Africa, with more than 95 million people connected. With increased connectivity, companies in the telecommunications sector are poised for growth as well as those in the online retail space.

Talaat Mostafa Group Holding EGX: TMGH.CA



Talaat Mostafa Group Holding is an Egypt-based company engaged in real estate investment. The Company establishes and develops hotels, touristic and residential projects. Its net income increased by 66.55% in 2016 with a dividend yield of 1.57%

Tanzania Breweries DSE : TBL.TZ



Tanzania Breweries produces and distributes alcoholic and non-alcoholic beverages. Its share price lost -23% in the past year to January 2017. The company's net income increased by 1.81% in 2016, with a higher dividend yield of 8.3%.

Source: Thomson Reuters, Cloud Atlas Research

African stocks continue to be undervalued but with high dividend yields. The above selection of companies in the consumer and real estate sectors have high dividend yields along with increasing net incomes. Given the positive demographic factors mentioned in this article, we expect these companies to keep on doing well as the years progress. We encourage investors to start getting into Africa with a long term view now, since stocks are still trading below their expected fair values. Most local investors still have difficulties in picking up stocks outside South Africa, but products such as ETFs can provide a useful avenue into the continent.

Glacier Research would like to thank Kenneth Ndlovu and Mtha Nombida for their contribution to this week's Funds on Friday.



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Kenneth studied B.Com Economics Honours at Midlands State University in Zimbabwe. He worked at the Ministry of Agriculture in Zimbabwe between January 2012 and January 2013, in the Economics and Marketing department. He was on the management information system side, analysing external trade on all agricultural products.



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