



Bet on Africa's Growth Alongside Canada's Warren Buffett

Description

In macroeconomic terms, the African continent is considered the final frontier. Similar to China or India a few decades ago, Africa is home to a young and growing population. According to U.N. estimates, 60% of the African population is below the age of 25. Meanwhile, the total population is expected to reach 2.4 billion by 2050.

Brimming with natural resources and leapfrogging developed countries with technologies like mobile banking, Africa can unleash a torrent of prosperity if it can get its economic policies and political environment in order.

According to estimates by the International Monetary Fund (IMF), the region is expected to grow by 3.8% in 2019, driven by such factors. Growth is concentrated in certain countries such as Nigeria, Kenya, Ethiopia, and South Africa.

Investors betting on this gradual transformation of the continent include legendary investor, Prem Watsa. Watsa's track record over the [past three decades](#) has earned him comparisons to the Oracle of Omaha, Warren Buffett.

Watsa's **Fairfax Financial Holdings** and **Fairfax India Holdings** are holding companies based on a [Buffett-style value investment strategy](#). In 2017, Watsa launched **Fairfax Africa Holdings** (TSX:FAH) based on the same framework for investments in African companies.

Since its initial public offering, Fairfax Africa has invested in over five companies, numerous debt instruments, and a number of derivative contracts across the continent. The total amount invested by the end of the third quarter of 2018 was \$412 million.

These investments include London-listed financial services group, **Atlas Mara**, Johannesburg Stock Exchange-listed **Consolidated Infrastructure Group**, a pan-African engineering infrastructure company, and South Africa-based AFGRI Holdings Proprietary Limited, a private agriculture holding company.

Alongside these equity holdings, Fairfax Africa also holds a number of bonds and loans issued to the same companies. Altogether, the portfolio is split rather evenly between debt and equity investments in a number of different African companies. The majority of the companies operate in either financial

services or agriculture.

The company's management has tried to focus on the core countries driving Africa's growth, such as Nigeria and South Africa, which account for over half of the region's gross domestic product (GDP). The growth rate averages 6% in countries like Kenya, Ethiopia, the Ivory Coast, Ghana, Senegal, and Rwanda.

This high growth rate comes with higher-than-average risk. Fairfax Africa faces the risks of inflation, political turmoil, interest rate hikes, and currency fluctuations. All these factors have a direct and noticeable impact on the company's reported book value.

During the most recent quarter, the book value was reported at \$661 million, or \$14.35 per share. That means the stock (currently priced at \$7.59) is trading at 52% of book value per share. There's little doubt that Fairfax Africa is tremendously undervalued at the moment.

I believe certain countries in Africa have the perfect opportunity to grow on par (or even faster) than emerging market kings China and India. For investors who appreciate the African frontier thesis, there are few investment opportunities as attractive as Fairfax Africa Holdings.

CATEGORY

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