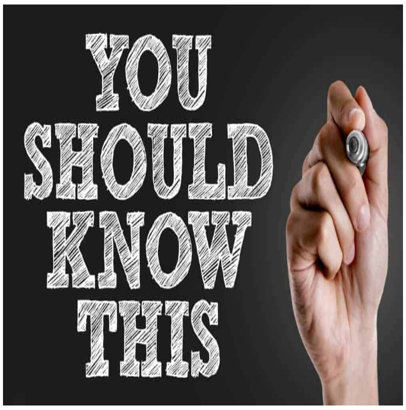

China Is the Catalyst for Africa's Growth

Description

A few years ago, China realized that it would need to look beyond its borders to keep fueling its relentless pace of growth. The monumentally ambitious Belt and Road Initiative (BRI) is an example of the country's growing interest in the rest of the world.

Nowhere is this focus more apparent than in Africa. According to McKinsey, China has become Africa's biggest trade partner in less than two decades. Taking into account trade, investment, infrastructure financing, and aid, China's influence in the region is unparalleled.

The Asian giant is deploying capital to build infrastructure, sending government-backed companies to start factories in the region, and helping Chinese workers and entrepreneurs migrate to the continent in astounding numbers. This creates jobs and a return on capital for both.

China's efforts are concentrated in the eight countries that contribute more than 80% of Africa's gross domestic product (GDP): Angola, Côte d'Ivoire, Ethiopia, Kenya, Nigeria, South Africa, Tanzania, and Zambia. This concentrated, infrastructure-focused approach has been co-opted by one of Canada's most successful investors.

Prem Watsa, often called the Warren Buffett of Canada, created a special holding company in 2016 to invest directly in Africa's growing economy. **Fairfax Africa Holdings Corporation** (TSX:FAH) is one of only a handful of Canadian listed stocks that provide a pure-play exposure to this underappreciated phenomenon.

One of Fairfax Africa's biggest holdings include London-listed financial services group, **Atlas Mara**. The company generates over $420 million in annual revenue from its network of banks and financial services providers spread across nine African countries.

According to McKinsey, Africa's retail banking sector grew 11% over the past five years and is likely to grow at a rate of 8.5% over the next five years. Banking the under-banked in this region is a key growth play.

Fairfax Africa originally bought bonds of Atlas Mara that were later converted to stock; it also purchased additional stock. The holding represents nearly one-third of shareholder's equity. Atlas is a great example of Fairfax's focus in the region – growing income, financial services, and infrastructure funding.

Other investments, like **Consolidated Infrastructure Group** and various corporate bonds, follow this basic thesis. Some, like AFGRI Holdings, targets a growing trend of consolidation, automation, and professionalization of the agricultural sector.

Most of Fairfax Africa's investments are exposed to growth opportunities in South Africa and Nigeria, which represent more than half the region's GDP at the moment.

This concentrated investment approach is similar to what Watsa has done with his holding companies in Canada and India. If his Canadian track record (book value has compounded by nearly 20% since 1985) is anything to go by, Fairfax's African ventures should yield incredible results for long-term shareholders.

At the moment, the stock is down, which means it's easier to become one of these long-term shareholders. Fairfax Africa's book value was reported at $661 million, or $14.35 per share in the most recent quarter. That means the stock (currently priced at $8.69) is trading at 60.5% of book value per share.

The stock is already up 14.5% since I wrote about it last month. Don't miss this train.

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