



Canada's Buffett Bets on Africa: Should You?

Description

While emerging markets like China and India garner all the attention, frontier markets like Africa tend to fly under the radar. I believe this presents a potentially lucrative opportunity for investors willing to take a closer look at this complex part of the world.

If you think about the current engines of global growth – China and India – both had a combination of young people entering the workforce, increased levels of education, and a massive population to serve as the base for a consumption-led economy. In other words, a country can develop by adding more low-paid young workers to the economy, educating them to create high-paying jobs, and relying on the size of the population for eventual consumption.

That's the sort of mix Africa has. Currently, the region has the fastest rate of population growth in the world due to its relatively high fertility rate. At the same time, 200 million Africans are aged between 15 and 24. This number is expected to double by 2045. Most of these young Africans have mobile internet, online payment networks, and access to better education than their parents.

Meanwhile, [China's growing investments and influence in the region](#) should make the political environment more stable and sustain industrialization over the long term.

One of the most prominent investors to notice this trend was Canada's Warren Buffett – Prem Watsa. The Indo – Canadian billionaire businessman who is the founder, chairman, and chief executive of **Fairfax Financial Holdings** ([TSX:FFH](#)) created a special holding company called **Fairfax Africa Holdings Corporation** ([TSX:FAH](#)) in 2016 to invest directly in Africa's growing economy.

As of the end of September, the holding company has deployed US\$406 million in African stocks, bonds, and derivatives that are now worth US\$412 million. The three biggest holdings in the portfolio are a 42.4% stake in **Atlas Mara**, a 43.8% stake in AFGRI Holdings, and Atlas Mara bonds worth US\$40 million.

Together, these three holdings represent 75% of the portfolio. Note that two of those instruments belong to the same company – Atlas Mara – so the portfolio is actually concentrated on just two companies. Let's take a look at them both:

Atlas Mara

London-listed, British Virgin Islands-based Atlas Mara is a financial services holding company. The group's operations spread from Germany to South Africa, and include most of the major African economies. Most of these subsidiaries are commercial banks, but the group also holds payment verification companies and insurance businesses as part of the portfolio.

The company was created by the former group chief executive of British banking giant Barclays plc., Bob Diamond. Diamond stepped down as chairman this week, but he's still deeply involved in the company. In a note on the company's website, he said the group's ambition is to become one of the top five banks in each of the countries involved.

AFGRI Holdings

South Africa-based AFGRI group offers services to the region's thriving agricultural industry. Services include e-management of accounts for farmers, commodity trading, insurance, equipment, and grain management. The company targets a growing trend of consolidation, automation, and professionalization of the agricultural sector.

Fairfax Africa's core investments indicate that Watsa expects growing financialization and a consolidation in the agricultural sector to be the key themes of the region's economy.

Bottom line

Given Watsa's track record as an investor, the strong management teams at the companies he's picked, and the potential growth of the African economy, I believe Fairfax Africa is a great way for Canadian investors to gain exposure to this exciting frontier market.

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