BIZCOMMUNITY

M&A in Africa: Bleak skies overhead, but the future looks brighter - Part 1

Mergers and acquisitions (M&A) have decreased across Africa in the first half of 2020 in terms of both volume and value, with some exceptions in Nigeria. Going forward, dark clouds remain over the M&A market in Africa in the short-term, with economic uncertainty likely to cause a reduction in foreign investment in Africa. However, recent developments regarding Africa's policies on trade and investment, and its renewed partnerships with major global economies, brighten the continent's prospects for medium-term recovery.

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South Africa

The value of M&A transactions in South Africa dropped 60% to US$3.3-billion in the first half of 2020, down from $8.2bn for the same period last year (H1 2019). This is according to Baker McKenzie's analysis of Refinitiv data, which lists completed and pending deals. The volume of M&A deals in South Africa fell by 18% year-on-year, with 132 transactions recorded in H1 2020, down from 160 in H1 2019.

Domestic M&A activity in South Africa dropped 18% to 64 transactions, down from 78 in H1 2019. Domestic deals were valued at $1.7bn in H1 2020, down 71% year-on-year. Cross border transactions reflected the same downwards trend, with M&A volume down 17% to 68 deals, and deals valued at $1.5bn in the first half of 2020, down 32% from the same period last year.

Barloworld's acquisition of the equity assets of both Wagner Asia Group and SGMS LLC by its Mongolian subsidiary, for $212mn each, were the biggest cross-border transactions in South Africa in the first half of this year.

Morne van der Merwe, Managing Partner and Head of Corporate/M&A at Baker McKenzie in Johannesburg notes that the impact of Covid-19 is now being felt across the African M&A market, with numerous deals in the pipeline delayed or cancelled in the first half of the year.

Halting expansion plans

"In certain sectors, such as in the airline and tourism industries, Covid-19 has caused a re-think/ pause /extraction from footprint expansion via M&A. In general, the dealmaking space has been impacted by the sentiment that 'life will never be the same'. A lot of dealmakers are thinking carefully about which businesses and sectors will be winners and which will be losers, and where the pandemic has created opportunity to acquire quality assets at a discount. It would appear as if VUCA (Volatility, Uncertainty, Complexity and Ambiguity) is becoming the new normal in the M&A space, requiring a smart and collaborative effort to get the deal over the line - especially in terms of cross border deals," van der Merwe explains.

Distressed M&A: You do not have to sell cheaply, but you must move quickly - Part 1
Tony Lee and Justin Balkin 15 Jul 2020

"Further, a lack of available capital and acquisition finance, as well as the difficulty of pricing deals in an uncertain market, could also cause investors to take a wait and see approach going forward. Adding to the challenges are the contract changes around due diligence and the mitigation of risks due to ongoing supply chain blockages and other disruptions. Force majeure clauses and material adverse effects in contracts are also being studied to assess where transactions could be terminated under existing agreements. The physical constraints of doing deals during a lockdown have also made negotiation, approvals and due diligence more difficult, but Zoom and other virtual teleconferencing tools have addressed the logistical challenges somewhat and provided the ability to continue negotiations.

Not unexpected

"However, well before the pandemic struck, we were expecting a drop in M&A deals in South Africa in 2020, due to issues around legal, political and economic uncertainty, labour market concerns; currency volatility; bribery and corruption challenges; and inadequacies in the justice system. Investors were also worried about the support and performance of SOEs, land expropriation without compensation, and uncertainty about security of property rights and security of tenure, which eroded business confidence in South Africa in the last few years.

"In the short term, we expect that most of the remaining deal activity in South Africa, and across Africa in general, will be generated by take private transactions, distressed M&A opportunities, restructurings, disposals and South African corporates possibly looking for investment opportunities in offshore markets," van der Merwe says.

In the context of distressed M&A, and with the likelihood of sector consolidation as stronger players buy weaker players, competition law will also be a key consideration for many M&A deals.

Lerisha Naidu, Partner in the Competition & Antitrust Practice explains, "It is likely that firms will look to increasingly rely on failing firm arguments to justify the consolidation of markets associated with M&A activity before the competition authorities. There is no doubt that Covid-19 will also give rise to a conflict between the need for foreign direct investment (FDI), on the one hand, and the need to protect the most vulnerable sectors of the economy from predatory acquisitions, on the other. The South African Competition Commission will likely increase its scrutiny of M&A transactions going forward, taking the view that the benefits of FDI cannot be at the expense of the economy and the public interest that the Competition Act seeks to protect. A careful balance should be struck between the two, erring on the side of bolstering the economy to the fullest extent, to ensure optimisation of the recovery phase."

Part 2 of this article will cover the M&A market in Nigeria, Kenya and Sub-Saharan Africa.