2020 a slow year for dealmaking in Africa, but post-pandemic opportunities look promising - Part 2

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In Part 1 of this three-part series, we analysed merger-and-acquisition data in sub-Saharan Africa - here we look at country specific M&A activity in South Africa, Ethiopia and Ghana.

South Africa

M&A activity in South Africa decreased as a result of the COVID-19 pandemic. The number of transactions dropped by 6% to 186 deals in H2 2020, and the value of the deals shrunk by 36%, down to $4.9bn from H2 2019. The full year 2020 activity was down 6% to 337 deals, while deal value fell by 46% year-on-year to $8.5bn. Monthly figures rebounded in H2 2020 and were more comparable to those in 2019.

Cross-border transactions dropped 2% year-on-year to 164, with deal value dropping by 47% to $4.3bn. The industrial sector was the primary target for inbound deals with 14 transactions in 2020, up 133% year-on-year. However, these deals were small in value, yielding a total for 2020 of $37mn. The largest inbound deal completed in 2020 was in the healthcare sector, with Aspen Pharmacare-Thrombosis acquired by Mylan NV (US) for $759mn.

The United Kingdom remained one of the primary investors for South African companies, with 25 deals, up 25% year-on-year. However, the biggest deals were brought in by US investors, with total deal value amounting to $871mn. This was largely driven by the Aspen Pharmacare-Thrombosis acquisition.

The pandemic has clearly affected both the volume and value of deals announced in the country in 2020. However, South Africa remains attractive to foreign investors who have long considered the country a key gateway into Africa, even more so now that AfCFTA trading has begun, and the country has been singled out as one of the early beneficiaries of intra-African free trade.

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South Africa’s infrastructure, automotive, healthcare and renewable energy sectors have seen large investments in recent years, and this looks set to continue, despite short-term pandemic lows. Government policy has focused on boosting investor interest in these sectors and the country’s special economic zones (SEZs) have been successful in facilitating foreign investment inflows. SEZs are areas in the country that are set aside for specific economic activities. For example, the Tshwane Automotive SEZ was launched to attract automotive component manufacturing companies and related services, boost investment in the sector and support black economic empowerment initiatives.

However, the uncertainty in the country with regards to onerous policy and legislation, junk status announcements by rating agencies, currency volatility, social unrest, electricity and water challenges, skills shortages, the performance of state-owned enterprises, the security of property rights, and serious governance issues in both the public and private sector, continues to make investors nervous.

To address these challenges, the South African government announced its Economic Reconstruction and Recovery plan in 2020, which outlined deliverables such as energy security, job creation and a trillion-Rand infrastructure plan. The National Economic Development and Labor Council (Nedlac) also outlined its Plan of Action last year and provided more detail on the infrastructure and energy plan, the creation of a more enabling regulatory framework and a commitment to fighting corruption.

Despite recent challenges, foreign investors in the UK, Europe and the US have long been valuable M&A investors in South Africa, and this is likely to be further boosted by South Africa being able to maximize the benefits of AfCFTA, due to strong connections across the continent and well-established manufacturing base.

Ethiopia

Ethiopia recorded eight M&A deals in 2020, totaling $1mn. Of the eight deals in 2020, two of them happened during the second half of the year. The majority of the deals were inbound and cross-border in nature, with seven deals in total in 2020, six of which were announced during the first half of 2020. The country did not announce any outbound transactions in 2020.

The retail sector has the highest number of inbound transactions in Ethiopia, two in all. Eritrea made most investments into the country, with two transactions in 2020. Tigray Ethiopia's acquisition by Yanchang Petroleum of Hong Kong for $1mn was the sole transaction with a disclosed deal value.

Dealmaking in Ethiopia slowed due to the pandemic in 2020, exacerbated by foreign exchange shortages, electricity supply issues and security concerns, among other things. The country’s industrial parks have attracted the interest of foreign investors and look set to assist the country in its post-pandemic recovery. The parks are providing a boost to Ethiopia’s manufacturing sector and will assist in the creation of jobs.

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Ghana

Ghana exhibited a solid M&A performance, despite the slow pace of dealmaking in H1 2020. It recorded 10 deals in H2 2020, representing 100% growth from H1 2020, and 14 deals in total for the full year, reflecting a growth of 17% year-on-year. Total deal value soared by 11607% to $818mn and 3369% to $832mn in the second half of 2020 and the full year, respectively.

Cross-border transactions contributed a huge portion of M&A activity in Ghana, recording a total deal value of $793mn for both H2 2020 (seven deals) and the full year 2020 (nine deals).

The materials sector was the top target for inbound and outbound deals in H2 2020 and FY 2020. China was the primary investor in the country, with two inbound deals worth $214mn for both H2 and FY 2020. For outbound transactions, Australia was the key target with two deals totaling $440mn, and one transaction worth $439mn in H2 and FY 2020, respectively.

China’s acquisition of the Bibiani Gold Mining Project via Chifeng Jilong Gold Mining Co for $109mn was the largest inbound deal in H2 and FY 2020. Conversely, Engineers & Planners Co Ltd’s acquisition of Cardinal Resources Ltd in Australia for $439mn was the top outbound transaction for H2 and FY 2020.

Ghana, despite some ups and downs, appears to be getting it right in terms of striking the right balance between encouraging investment and protecting the rights of the country and its people. It has also been singled out as one of the countries that is ready to benefit early on from AfCFTA. This is due to existing favorable conditions in the country, such as having an open economy, good infrastructure, a supportive business environment and the ability to quickly ramp up its intracontinental exports. All this bodes well for Ghana’s future economic position in Africa.

In Part 3 of this series, will look at data from Kenya, Mozambique and Nigeria.

ABOUT THE AUTHOR

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