Resourceful dealmaking

Outlook for M&A in Africa

Mergermarket
An Acuris company

Control Risks

Contents

Foreword

The global M&A trend for higher values and lower volumes has made its way to Africa. After a blockbusting 2015 which saw 306 deals (the highest number on record), 2016 saw deal total slip by 13% year-on-year but value rose to US$40.8bn – 56% higher than the previous year. However, the first half of 2017 has seen value fall dramatically compared to 2016. And questions are being asked: What is behind this fall in value? Is it just temporary? And can the continent reverse this negative trend?

Much of the situation can be attributed to the downturn in Africa's largest M&A market, South Africa. The drop-off is down to growing investor anxiety surrounding the country's governance, with the sacking of the finance minister in March 2017 triggering a downgrade of its credit ratings and fresh pressure exerted on its currency.

The country's troubles have coincided with weaker economic signals elsewhere in Africa, with the likes of Nigeria – which, like South Africa, has a sizeable economy and a strong track record for dealmaking – suffering from a persistent weakness in oil price.

Political risk and transparency concerns have evolved over recent years to become the principal obstacle to successful acquisitions within the continent. Ethical and compliance considerations are another major influencing factor on African M&A, with the risk of getting involved in regulatory or criminal investigations weighing heavy on dealmakers' minds. Such signals have clouded the outlook somewhat for potential dealmakers. With less visibility on asset valuations, many have preferred to sit on their hands rather than risk their capital.

However, there are a number of optimistic signs which point towards a revival in the market in the second half of the year and beyond. On the back of favourable demographics, the consumer sector is growing exponentially, displaying a steep rise in activity over recent years. Increased consumer spending power has piqued some buyers' interest in well-positioned retailers who can deliver a more diverse geographic footprint.

Private equity (PE) players have also shown a desire to shift beyond their comfort zone of West Africa. Interest has shifted to East Africa, where an emerging secondary market is attracting interest from PE groups looking to sell on stakes to other buyout firms.

There is another interesting development on the cards, which reflects some of the risk concerns detected among dealmakers. Our survey finds a growing focus on co-investment strategies. Nearly three-quarters of respondents said they were pursuing a co-investment strategy, often as a means of allocating risk more effectively. Partnering up with local institutions is a theme that is likely to figure more significantly on dealmakers' agendas in the future, as Africa seeks to regain its place as a hotspot for M&A.

OVERVIEW

M&A activity in Africa

STATE OF THE MARKET

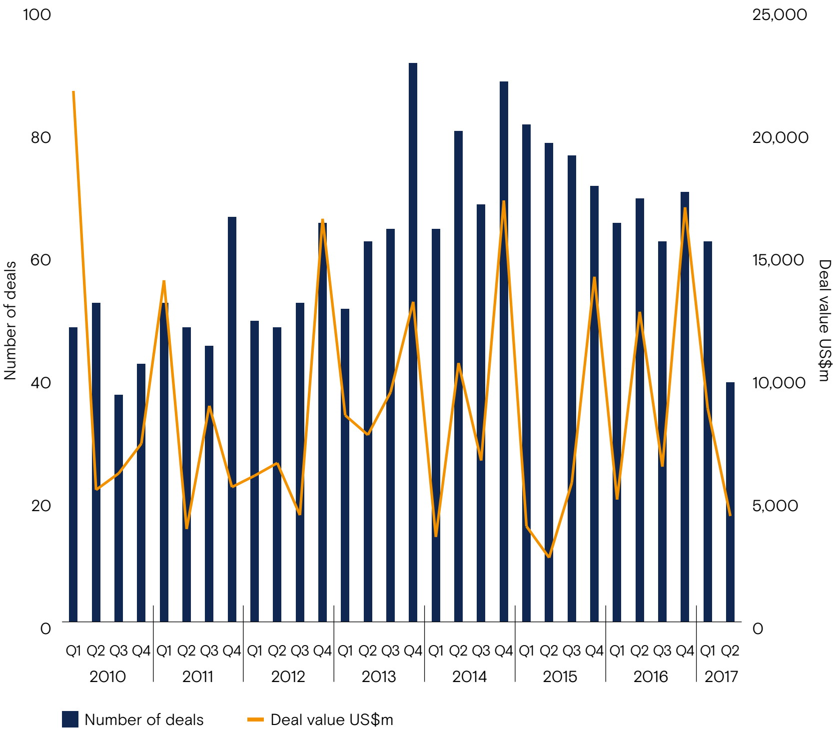
Political uncertainty and relatively weak economic fundamentals have negatively affected M&A activity within the African continent. A fall-off in deals was seen in the first half of 2017 compared to a relatively buoyant 2016, with 101 recorded transactions worth US$13bn representing a 25% decrease in volume and 26% drop in value compared to the second half of 2016.

The mid-market remains the busiest section for M&A. Deal sizes in H1 congregated in the US$15m-US$100m bracket, which saw the largest number of deals (32). This represents 32% of the total number of deals in the period, a slight increase from that seen in 2016 (30%).

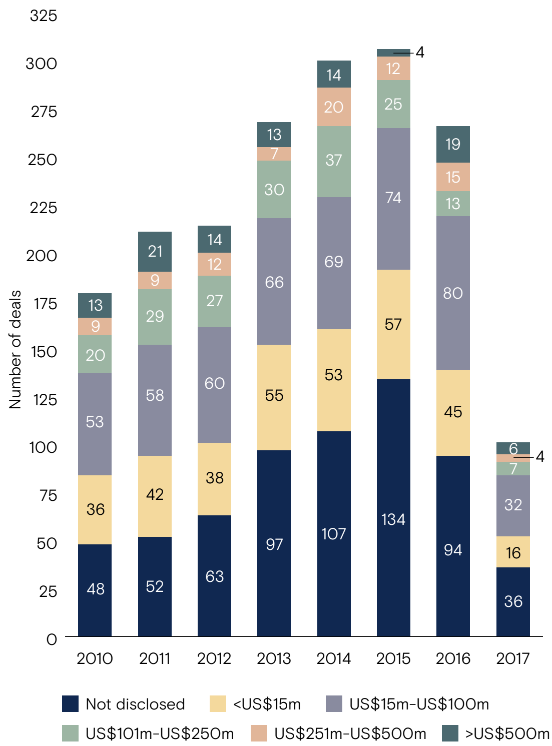
A slump in macroeconomic indicators has been significant in undermining both buyer and seller confidence in the continent. GDP growth for sub-Saharan Africa fell from 5.1% in 2014 to just 1.5% last year. In its annual outlook for the continent, the IMF has forecast GDP growth of just 2.6% this year – too low to put the region back on a path of rising living standards.

Political instability in the continent's largest M&A market – South Africa – has further inhibited M&A activity. Investor confidence in President Jacob Zuma's government has eroded since the sacking of the respected Finance Minister Pravin Gordhan at the end of March. Zuma and his political allies have been subject to allegations of corruption, opening up a rift inside the ruling African National Congress (ANC) party. International ratings agencies downgraded the country's credit rating to junk status, and the impact on South Africa's currency has reduced returns for foreign investors.

African M&A activity 2010–H1 2017



Deal size splits by volume



Top 10 African M&A deals, H1 2017

Announced Date	Target Company	Target Sector	Target Country	Bidder Company	Bidder Country	Deal Value USD(m)
09/03/2017	Eni S.p.A. (Rovuma Area 4 gas field) (25% Stake)	Energy, mining & utilities	Mozambique	Exxon Mobil Corporation	USA	2,800
15/05/2017	Safaricom Limited (34.94% Stake)	TMT	Kenya	Vodacom Group Limited	South Africa	2,578
22/03/2017	Chevron Corporation (Assets in South Africa and Botswana) (75% Stake)	Energy, mining & utilities	South Africa	China Petroleum & Chemical Corporation	China	900
09/01/2017	Tullow Oil Plc (Exploration Areas 1, 2 and 3A) (21.57% Stake)	Energy, mining & utilities	Uganda	Total E&P Uganda B.V.	Uganda	900
24/03/2017	Shell Gabon S.A. (75% Stake); Shell Upstream Gabon S.A	Energy, mining & utilities	Gabon	Assala Energy Holdings Ltd.	USA	872
01/02/2017	INT Towers Limited (51% Stake)	TMT	Nigeria	IHS Nigeria Plc	Nigeria	789
13/02/2017	Mutanda Mining Sarl (31% Stake)	Energy, mining & utilities	Congo, the Democratic Republic of	Glencore Plc	Switzerland	496
13/03/2017	Rosh Pinah Zinc Corporation (Pty) Ltd. (80.08% Stake); Perkoa Zinc Mine (90% Stake)	Energy, mining & utilities	Namibia	Trevali Mining Corporation	Canada	400
27/02/2017	Total Participations Petrolieres Gabon; Total S.A. (Assets in Gabon) (58% Stake)	Energy, mining & utilities	Gabon	Perenco S.A.	France	350
28/06/2017	China African Precious Metals (Proprietary) Limited (74% Stake)	Energy, mining & utilities	South Africa	Pengxin International Mining Co., Ltd.	China	279

SECTOR WATCH

Energy and mining – Africa's traditional resource strengths – continue to figure prominently on M&A dealmaker radars. In 2016 and H1 2017 combined, energy, mining and utilities (EMU) was the most targeted sector by volume taking 20% of total market share.

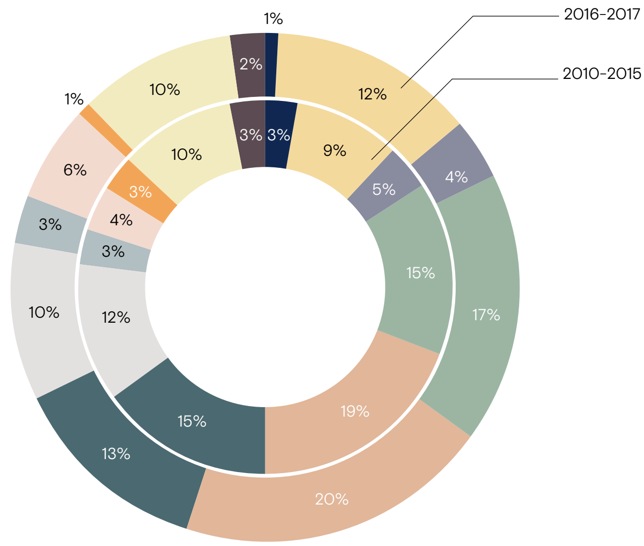
In the early part of the year, rising commodity prices, which averaged US$52.9/bbl during Q1 2017, galvanised M&A interest. However, enthusiasm was short-lived. Oil prices did not sustain their momentum through the second quarter of the year; the average price in the April-June 2017 period dropped to US$49.4/bbl, barely higher than in late 2016.

Despite the sector accounting for the most deal volume of any sector in H1, weaker oil prices and increased volatility fed a misalignment between buyer and seller asset valuations. This in turn resulted in a difficulty pricing assets in a market which has traditionally suffered from a lack of transparency over earnings. The unpredictable commodity pricing climate in H1 clearly put some buyers off. That brought about the situation where EMU deal value slipped from a 37% market share in the 2010-2015 period to 29% in 2016-2017.

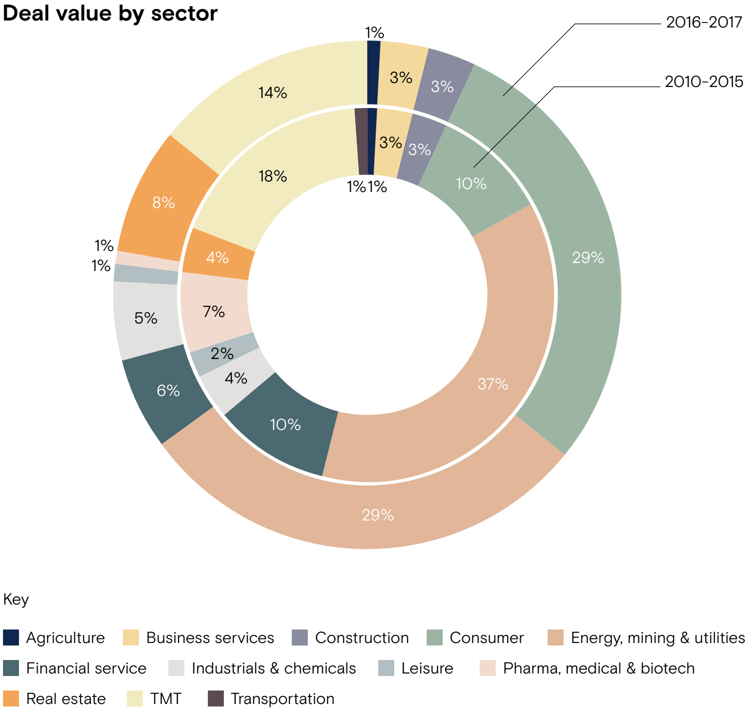
Yet, for those able to navigate the challenging deal landscape, EMU offers robust long-term strategic value to dealmakers. Take the highest valued deal of H1: Exxon's US$2.8bn purchase of Eni's interest in an offshore block in Mozambique. The transaction served the US supermajor's ambition to tap East Africa's prodigious natural gas reserves, and build this into liquefied natural gas (LNG) supplies that could feed the surging Asian market.

Another driver of EMU activity is the tendency of oil majors to shed non-core assets as part of an effort to strengthen balance sheets in the face of lower commodity prices. The offloading of Shell's onshore production to the Carlyle Group in March for US$872m is an example of this trend.

Deal volume by sector



Deal value by sector



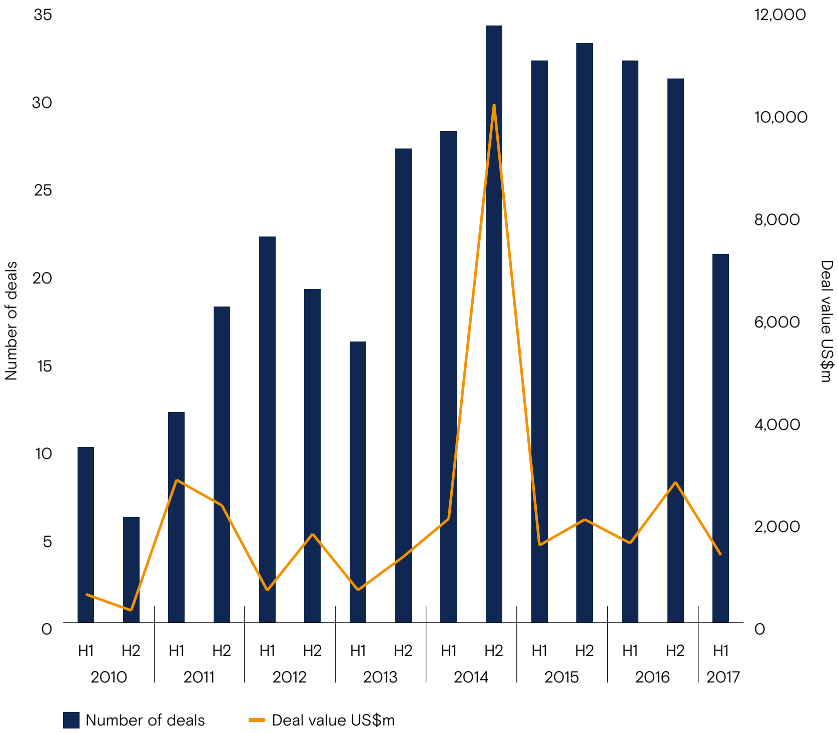
In response to the volatile nature of resource commodity prices, dealmakers have diversified their interests this year. Consumer M&A accounted for 29% of total value across sectors during 2016 and H1 2017, and saw the biggest sectoral rise from just 10% in the 2010-2015 period. There is an emerging sense that smaller economies that are less oil dependent are showing stronger growth rates. This will be of increased interest to M&A dealmakers over the coming months.

Africa boasts a young and growing population, and its fast urbanization rate should open new avenues for the consumer market. Large African retailers such as South Africa's Steinhoff International – known as Africa's "Ikea" – have embarked on acquisition programmes with a view to diversify their geographic earnings, and in part offset the currency depreciation experienced in their home market.

Africa's TMT assets continue to attract dealmaker interest, with investment in infrastructure driving much of the buying and selling activity. The demand for greater connectivity is forcing telcos and service providers – particularly in the mobile space – to consider acquisitions to meet that need. In Nigeria, MTN Group exchanged its 51% interest in Nigeria Tower InterCo for an additional shareholding in IHS Holding Limited valued at US$789m. The transaction enables MTN to simplify its tower ownership structure and diversify its tower infrastructure exposure across the IHS Group, which operates in a number of markets across Africa.

Financial Services was one of the top performing sectors, accounting for 13% of deal volume in the 2016/2017 period. The sector is increasingly recognised as a key driver for social and economic development within the continent, and is attracting increasing attraction from dealmakers. The largest deal of 2017 – the US$158m acquisition of a 25% stake in Capricorn Investment Group by Namibia-based pension fund Government Institution Pension fund (GIPF) – was borne out of this drive for inclusive ownership within the financial services industry.

African private equity activity 2010–H1 2017



According to Goms Menettè, chairman of the GIPF board of trustees: "The Group has equity interests in Cavmont Bank in Zambia and Bank Gaborone in Botswana. Through these interests, GIPF will be able to facilitate regional co-operation, intra-regional trade and banking links with Zambia and Botswana."

PE LESSONS

In line with the overall M&A trend, there was a marked dip in both PE buyouts and exits in H1. There were 21 PE deals worth US$1.3bn announced, down 34% in terms of volume and 15% in terms of value compared to H1 2016. The biggest PE deal involved the offloading of Shell's onshore production in Gabon, West Africa, to the UK's Carlyle Group-backed Assala Energy in March for US$872m.

The deal highlights the appetite of PE investors for cash-generative assets held by large energy groups. Despite this large energy-related PE play, many PE firms have also diverted their attention away from oil-rich West Africa towards East Africa. From 2014 to 2016, West Africa made up a larger percentage of PE deals on the continent than East Africa, at 26% versus 18%, respectively, according to the African Private Equity and Venture Capital Association. But investors say there is now more activity in the east, and even a maturing "secondary" market, as PE groups look to sell their stakes in businesses to other buyout houses.

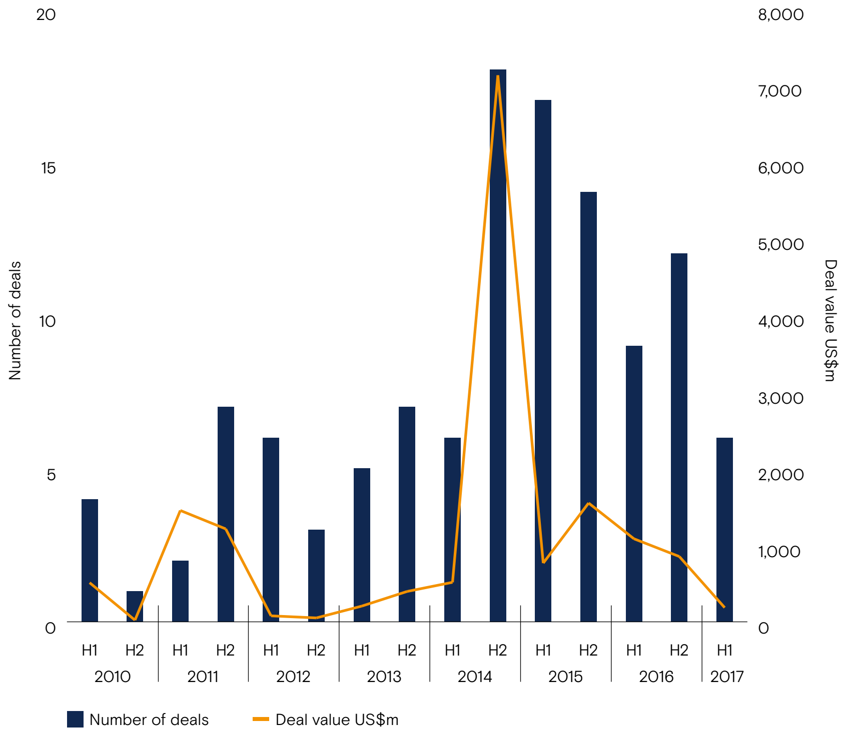
M&A OUTLOOK

M&A strategies look to be predicated on opportunities emerging in more diversified segments, as uncertainty over commodity prices erodes dealmaker appetites. This reflects both short-term economic factors – such as healthier growth dynamics seen in non-hydrocarbons economies such as in East Africa or West African states Senegal and Cote D'Ivoire – and long-term demographic trends towards a burgeoning middle class that has increased spending power.

African consumers are entering income brackets where their food and beverage purchases are starting to increase exponentially. The attraction of building market share in economies through acquisitions of existing market players is proving compelling.

South African companies will continue to look for growth outside their own market, which has shown signs of saturation – aggravated by domestic political risk concerns. Large retailers like Steinhoff and supermarket chain Shoprite Holdings have long been active in other countries across the continent, and this may prove to be a growing theme throughout the rest of the year and beyond.

African private equity exits 2010–H1 2017



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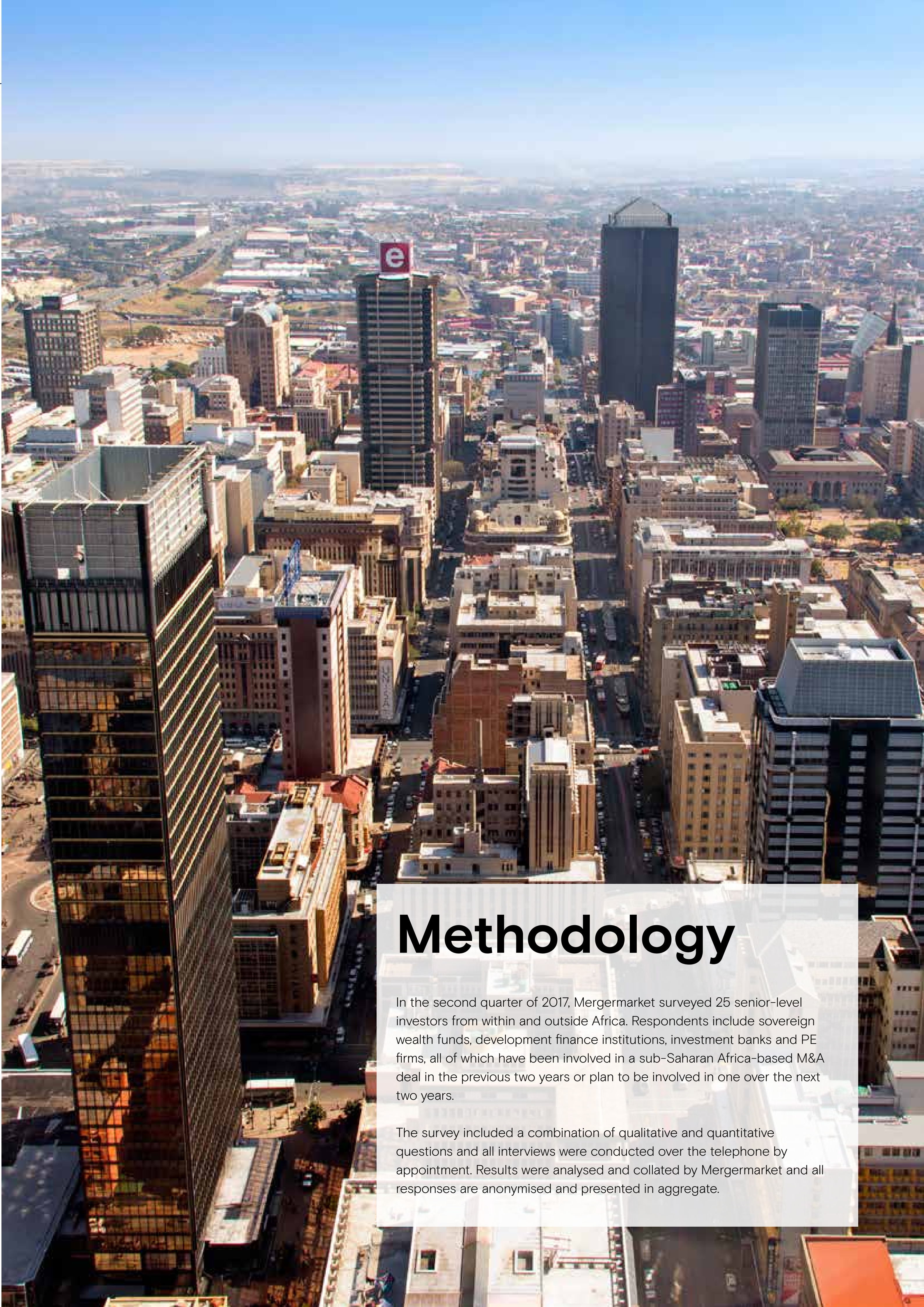


Methodology

In the second quarter of 2017, Mergermarket surveyed 25 senior-level investors from within and outside Africa. Respondents include sovereign wealth funds, development finance institutions, investment banks and PE firms, all of which have been involved in a sub-Saharan Africa-based M&A deal in the previous two years or plan to be involved in one over the next two years.

The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analysed and collated by Mergermarket and all responses are anonymised and presented in aggregate.

SURVEY FINDINGS

Dealmaking plans

Dealmakers targeting Africa are focused on a clutch of sectors that underpin the continent's resource strengths and healthy demographics.

Survey respondents are still interested in the energy sector, despite the impact of ongoing commodity price volatility, with 32% planning on targeting an energy and utilities company for their next deal.

Energy is central to the African market's long-term fundamentals. "The opportunities within Africa's energy sector are wide-ranging, with rising demand increasing further opportunities," says a CIO of a Nigeria-based sovereign wealth fund. "Falling prices are facilitating acquisitions within the sector, while companies are planning to switch from coal to other sources of renewable energy. This creates different avenues to invest capital and assures strong returns."

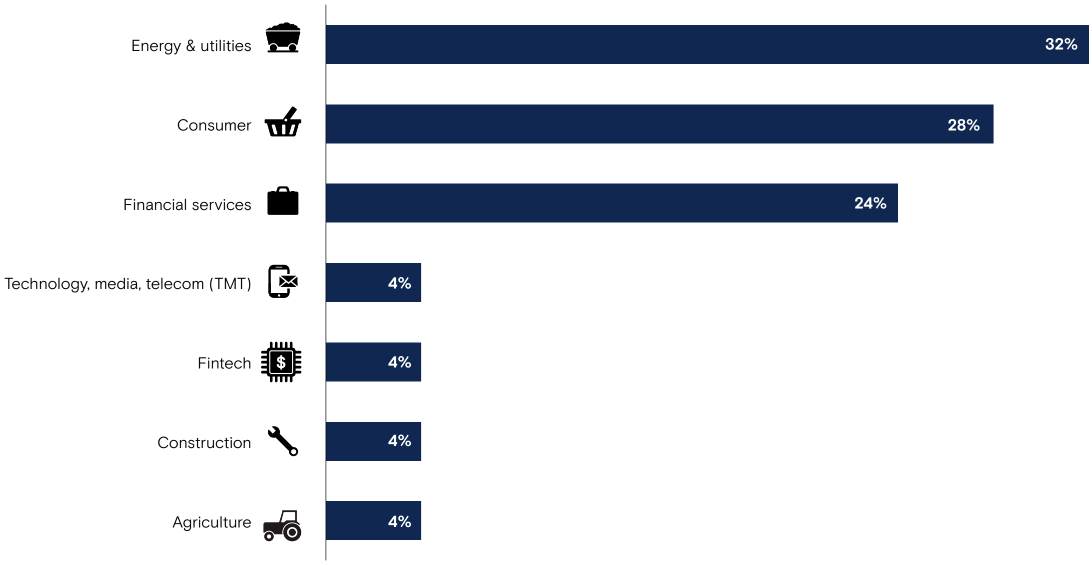
While respondents highlight the growing importance of renewable energies, this does not negate the attraction of traditional minerals plays. Deals such as Glencore's purchase of the Fleurette Group's remaining 31% stake in Mutanda Mining for US$496m, along with Anglo-American's offloading of four mines and four closed sites to South Africa-based mining company Seriti for US$167m, reflect resilient activity in Africa's EMU sector.

RISE OF THE CONSUMER

African dealmakers are keeping a keen eye on the consumer industry, which ranked as the second highest performing sector in terms of value in 2016 and H1 2017 combined. The African consumer market has built solid momentum on the back of rising levels of disposable income, powered by a growing middle class and a long-term trend towards urbanisation. This is reflected in our survey results, with 28% of respondents planning on targeting a consumer asset for their next deal.

While retail has long been a significant driver of M&A activity in the most developed markets such as South Africa and Nigeria, now countries such as Kenya are emerging as magnets for activity.

In which sector will you consider making your next deal?



Dealmakers are playing up the positive consumer fundamentals. As one PE partner in our survey commented, the consumer sector in Africa "has significant momentum via rising disposable income, rapid urbanisation, the development of retail sector and technological advancements."

Another US PE managing director agrees that the consumer sector is poised for rapid growth in Africa: "The population is huge and as economic growth progresses and employment improves, the spending potential will also increase, giving significant scope for the consumer sector."

There is also a crossover impact between the consumer sector and Africa's energy sector. The decision of Chinese state oil giant Sinopec to pay US$900m to US major Chevron for a 75% stake in its South African and Botswana downstream assets comprised 220 convenience stores. This was a play that was also driven by a growing middle class and rising demand for refined petroleum.

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JOINING FORCES

Co-investment strategies in Africa are popular among respondents, with 72% pursuing one. Among those planning a co-investment, the advantages identified by respondents include risk allocation (cited by 94%), deal sourcing (83%) and more control over capital calls/drawdown (72%).

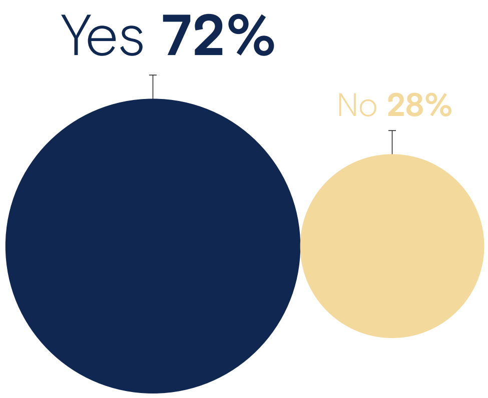
The appeal of co-investing can be straightforward. "A co-investment will help produce better risk-adjusted returns," says a partner in a US-based PE firm. "We believe in the mutual strength of each other so that we can leverage our offerings and strengthen our footprint in Africa."

Indeed, risk allocation is the most important advantage of co-investing for 72% of respondents. Another PE firm partner in the US said the main advantage of co-investment is risk sharing: "In Africa, the level of risk for a foreign firm is quite high, so making an investment through a local institution is always advisable."

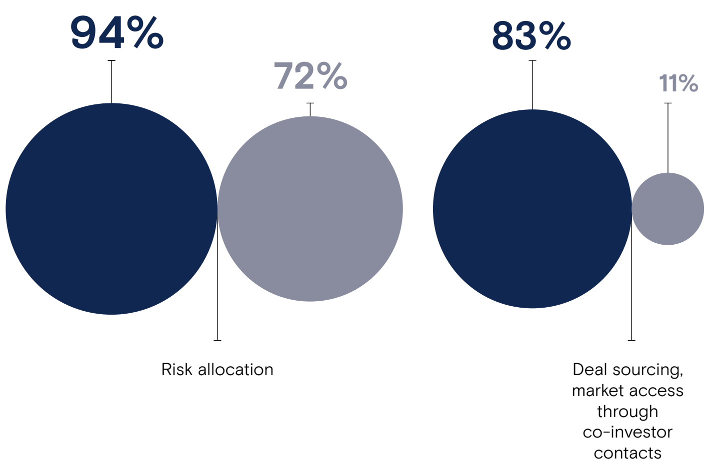
A substantial majority – 83% of respondents – use a co-investment strategy to acquire assets by way of buyouts, while 67% use mezzanine finance. According to a PE firm partner in the US, venture capitalist firms and hedge funds are providing capital for mezzanine deals. "We prefer working with these companies because risks are better managed. It helps us control the rate at which we grow and diversifies our portfolio. It gives us more capital and allows us to deploy our funds into new investment opportunities."

Despite this positive outlook, challenges to co-investing remain. According to a US-based director of investment banking, the complications in working with another team are "very large", stating: "We do not want to co-invest with any other investor as we prefer controlling the growth and the management of the companies we acquire."

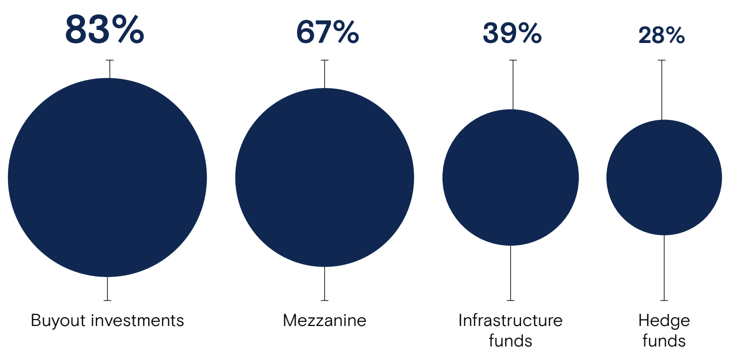
Are you pursuing a co-investment strategy in Africa?



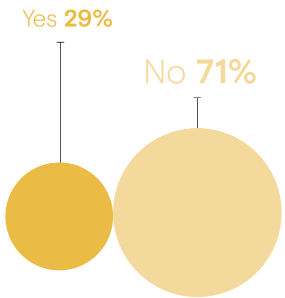
If yes, which advantages are most important to you when seeking out a co-investment?

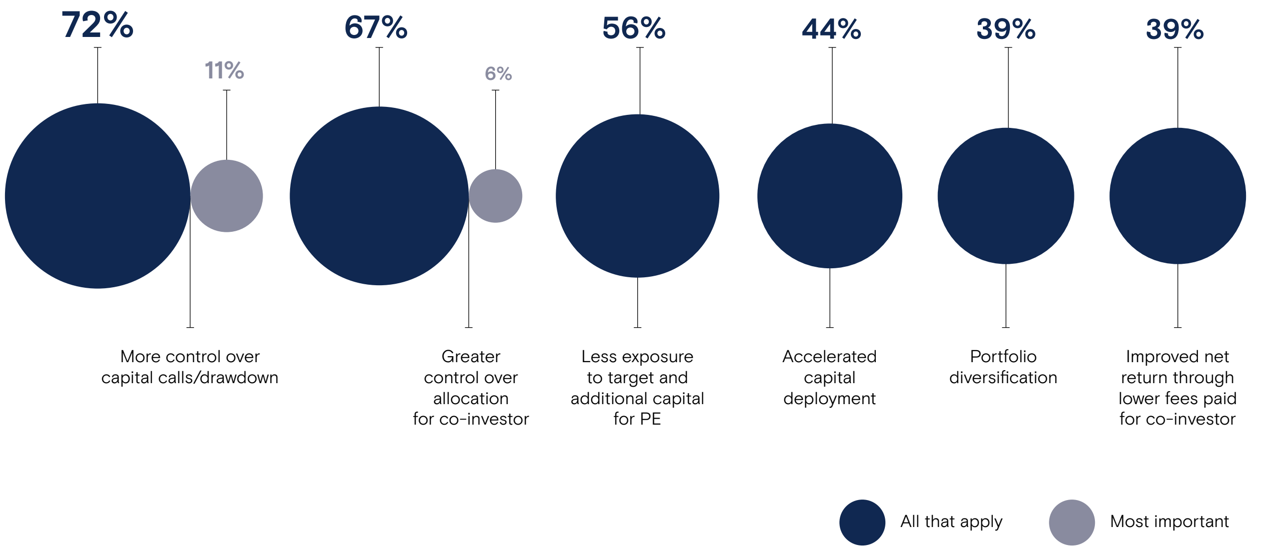


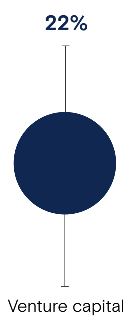
If yes, where do you target your co-investments in Africa?



If no, would you consider it in the future?







SURVEY FINDINGS

Risks and rewards

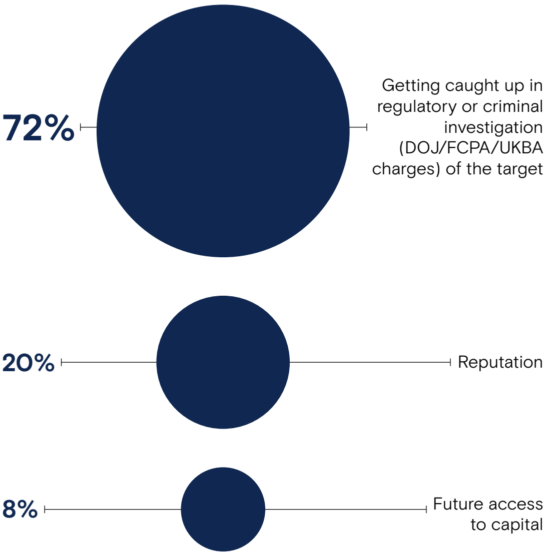
ETHICAL AND COMPLIANCE CONCERNS

Ethical and compliance considerations are another major influencing factor on African M&A. Almost three-quarters (72%) say that getting caught up in a regulatory or criminal investigation is one of the highest risks in relation to a target company's ethics and compliance standard. A smaller amount (20%) point to reputational issues.

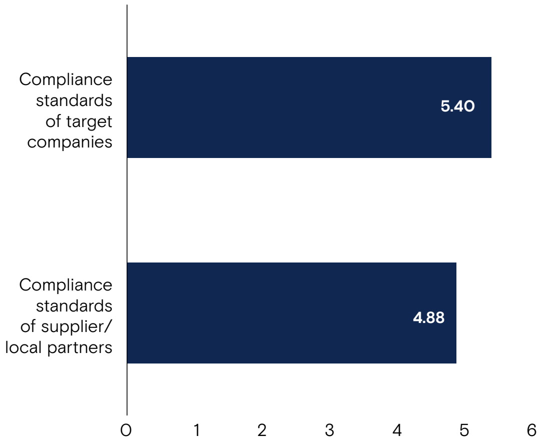
In mitigating the risk, dealmakers have been imposing their own conditions on the target company's ethics and compliance standards. On a scale of 1-6 (6 being the most important), respondents rate the compliance standards of target companies as 5.4. According to a partner at a UK PE firm: "We are one of the largest companies in the market, and when we invested in a company that was underperforming, we understood the potential the company had to get us strong and steady returns. By changing the ethics and compliance standards we improved both the quality of the company and the way the employees worked. Our focus was to reduce risks from regulatory and criminal issues that the company faced."

There is a need to take control of the situation whenever ethical or compliance standards appear compromised. According to a US-based investment bank managing director, "the ethics and compliance standards that were followed by the companies before we acquired them were not good. Establishing a policy for our employees was crucial to get them to perform well and give us the output expected of them."

Which of the following do you consider most 'high risk' for you in relation to a target company's ethics and compliance standard?



When considering an acquisition, how important are a target company's ethics and compliance standards for you? (Please rate on a scale of 1-6, 6=very important) (mean shown)



Ethical and compliance considerations are a major influencing factor on African M&A. Almost three-quarters (72%) say that getting caught up in a regulatory or criminal investigation is one of the highest risks in relation to a target company's ethics and compliance standard. A smaller amount (20%) point to reputational issues.

The evolution of political risk

Imad Mesdoua, senior consultant at Control Risks, explores how political risk has impacted African M&A activity over the past year, and how buyers can best mitigate these risks.

Despite a notable improvement in legislative and institutional stability in most sub-Saharan countries, political risk represents an increasing obstacle for M&A activity on the continent. The dip in global commodity prices, uncertainty over political transitions, and constraints posed by issues such as currency convertibility have all undermined investor confidence. In the past year, Africa's biggest economies, South Africa and Nigeria, witnessed slowdowns in M&A activity as a result of political volatility. Although East African nations fared better, FDI inflows and economic growth in this region have also slowed.

In South Africa, President Jacob Zuma's dismissal of Finance Minister Pravin Gordhan, a widely respected economist, dented investor confidence. Corruption allegations against Zuma and divisions within the ruling African National Congress (ANC) over the party's looming leadership succession generated further uncertainty. When international credit ratings agencies downgraded South Africa's credit rating, the country's investment profile took a further hit.

In Nigeria, despite encouraging beginnings, the administration of President Muhammadu Buhari's interventionist economic and monetary policy weakened investment levels. Cuts to oil production and volatility in the Niger Delta also dealt a blow to state revenues, and the economy suffered as a result. These challenges have been compounded by political uncertainty over the health of Buhari, who undertook a lengthy period of medical leave in the UK before returning to Nigeria in August.

With its relative political stability and sustained growth, Ethiopia remained an attractive destination in sectors open to foreign investment. But the government's tight control over economic planning, and unrest in parts of the country, also generated uncertainty among investors. Kenya's diversified economy meant the country was sheltered from commodity-driven external shocks and M&A activity was relatively positive, despite slowing ahead of the elections.

Political risk can, in some instances, generate opportunities for those willing to take calculated risks. Key to this is an understanding of the wider political landscape and outlook in the countries being considered for investment. Questions to ask include: how is the overall economic and political situation in a country likely to evolve in the short-to-medium term? What are the decision-making structures within government? Which stakeholders hold formal and informal influence over transactions? Are legislative frameworks in line with investors' strategic objectives? How will they impact commercial opportunities directly? What, if any, are the links that local partners and advisers have with the political establishment? Will these relationships be an issue when governments change? The ability of investors to maximise opportunities in African markets is increasingly based on their ability to answer these types of questions, and to anticipate and mitigate the political risks that are likely to impact their activities.

BUREAUCRATIC BURDENS

A major obstacle to dealmaking over the next 12 months is political risk (identified by 84% of respondents). That figure marks a substantial shift from the last year's survey, when only 41% said it would be among the principal obstacles to dealmaking.

Similarly, transparency concerns and completeness of information ranked the joint highest choice this year, having been identified by 84% of respondents, compared to 74% last year.

Local content regulations were cited by a UK PE firm partner as a "major deterrence to dealmaking in Africa". He says regional differences in regulation are "very large and affect the compliance and growth of our assets".

Fluctuating regulations appear as a clear issue for respondents. "Local regulations keep on changing from market to market. This means companies face a host of issues when trying to develop their businesses and sales channels within different countries," says an Angola-based sovereign wealth fund director.

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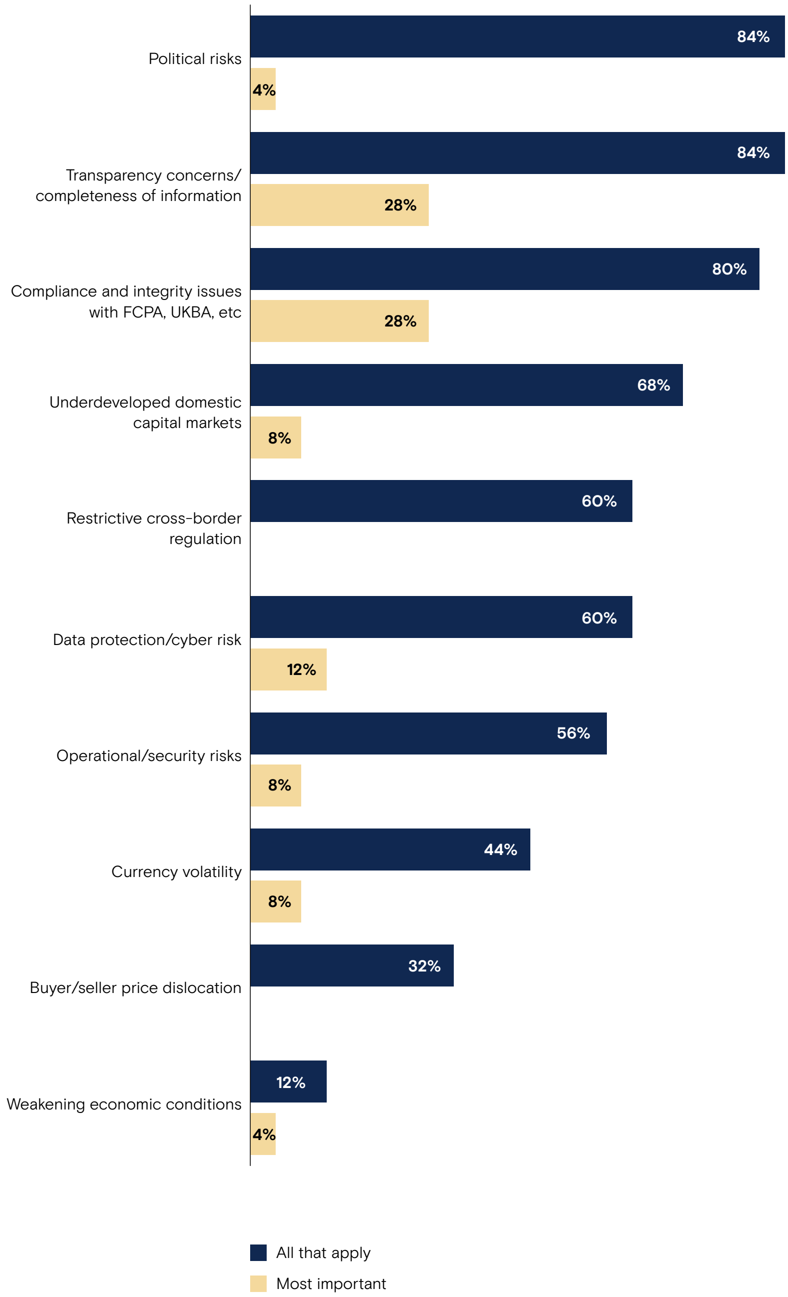
What do you believe will be the principal obstacles to acquisitions in Africa over the next 12 months?



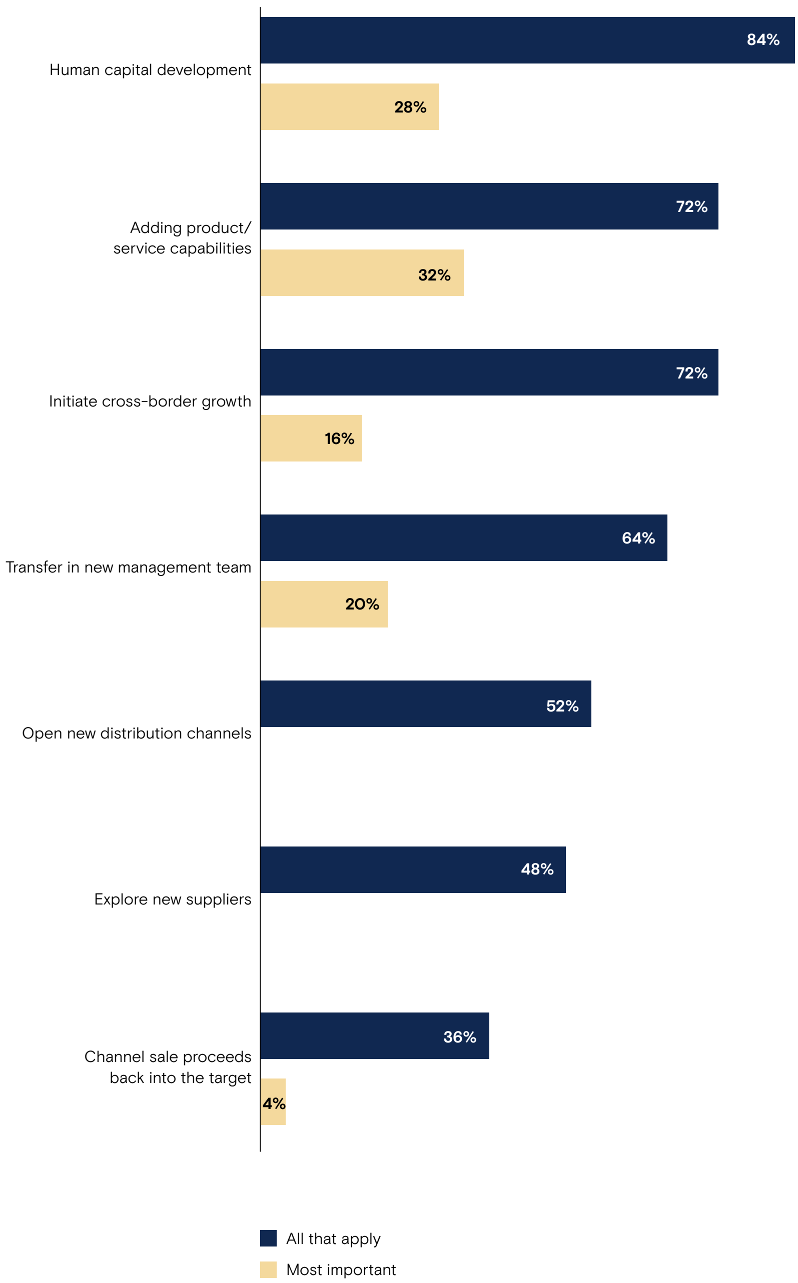
MAXIMISING CAPABILITIES

When asked about the means by which to maximise the capabilities of newly acquired distressed companies, 84% of respondents say human capital development is key, 72% point to adding product/service capabilities and a further 72% say initiating cross-border growth.

According to the managing director of a Nigerian investment bank, investing in human capital is paramount to overall operational success: “By developing our HR capability we not only reduce errors and risks from internal operations but also create a strong work force that can add value to the company.”

It is also important to think across borders, says the investment director of a UK-based development finance institution. “To build a profitable investment in a distressed business, we consider pan-African growth. By tapping different markets we can develop a detailed understanding of income, category, and geographic trends.”

How do you maximise capabilities of newly acquired distressed companies?



Rise of institutional investment

Institutional investment within the African M&A market is growing, with pension funds, insurance companies and mutual funds becoming increasingly prominent

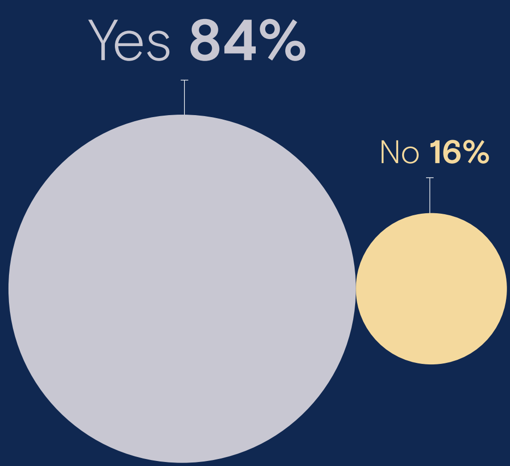
Our survey found 84% of respondents expect to see an increase in activity in the African M&A market by African institutional investors.

A director of investment for a UK development finance institute predicts that African institutional investors will be the major driving force for investments and M&A activities in Africa. "The capital pool of these African institutional investors is growing rapidly," he notes.

One reason for this is that current volatility within the developed world market have driven interest towards Africa. According to a managing director at a US investment bank: "Getting short-term returns from investments is a lot easier now and investments are less exposed to volatility."

An increasing number of African institutional investors are looking for investment options that reflect the stable growth rates in Africa – and the potential to get strong revenues from their investments. "The cost and burden of compliance and regulations are very high in EU markets and the US, allowing companies to get the returns they want without having to invest large amounts of capital," says the CIO of a Nigeria-based sovereign wealth fund.

Are you anticipating an increase in African institutional investor participation (pension funds and insurance firms) in the African M&A market?



SURVEY FINDINGS

Deal experience

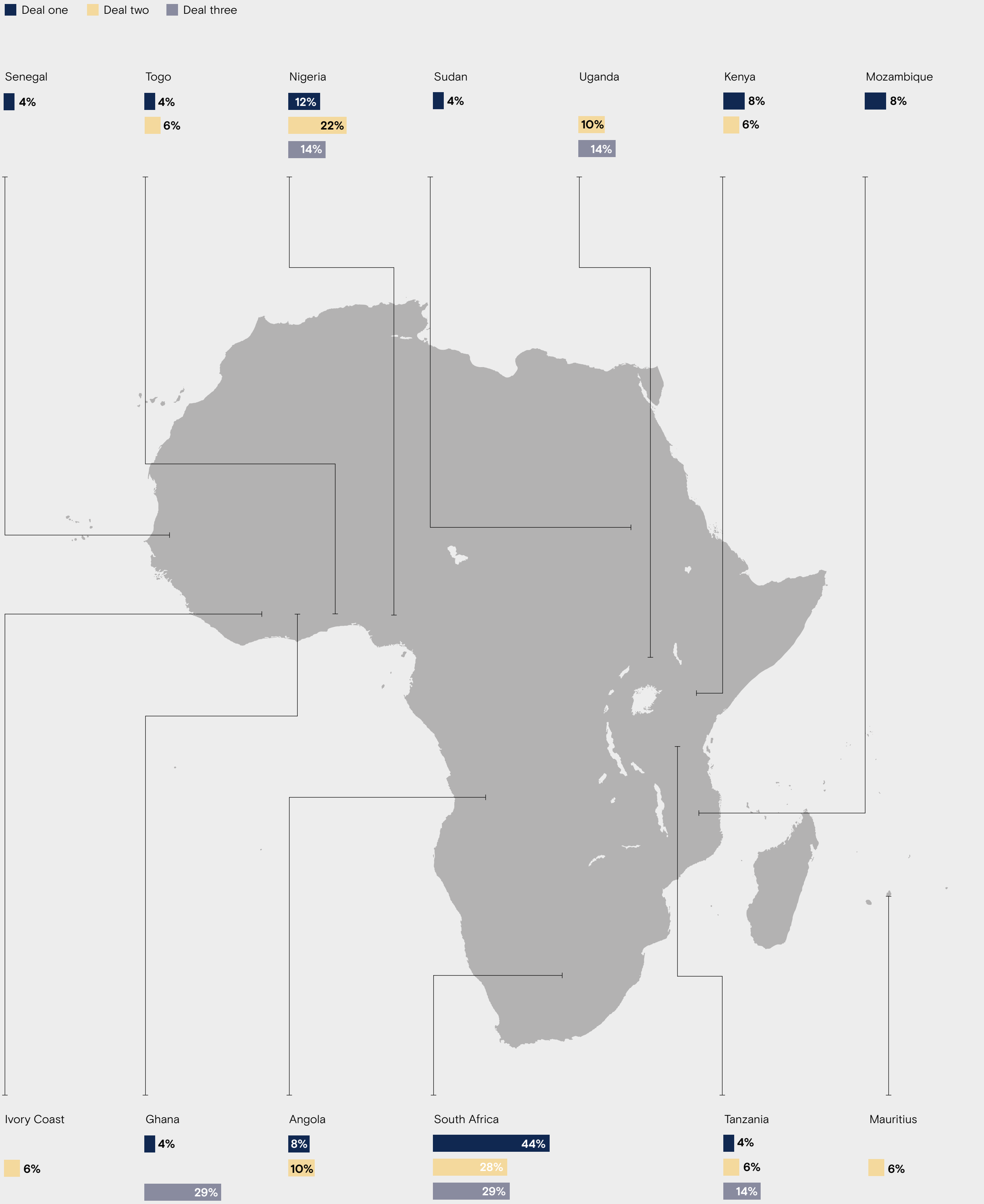
The “big three” countries – South Africa, Nigeria and Ghana – continue to dominate the African M&A landscape. South Africa remains the most active: 44% of respondents did their previous deal in the country. Of those who have conducted a second deal in Africa, 28% did so in South Africa.

However, given the ongoing political volatility in the country, the future for South African M&A looks uncertain. President Zuma’s association with the Gupta business group has drawn controversy, and his sacking earlier this year of the respected Finance Minister Pravin Gordhan appeared to rattle the business community.

Nigeria, with a population of 191m, retains its status as the largest economy in Africa, and will continue to figure prominently in deal activity. Ghana has also performed strongly, with 29% citing it for their third deal in Africa – equal to South Africa. Further down the deal chain, and although Tanzania and Uganda have shown relatively little activity in terms of major deals, 14% of respondents cited these countries for their third deals in Africa.

Nigeria, with a population of 191m, retains its status as the largest economy in Africa, and will continue to figure prominently in deal activity.

In which Sub-Saharan African country did you conduct your most recent three deals?
(If you have done less than three deals, please only answer for the deals you have done accordingly)



DEAL SIZES

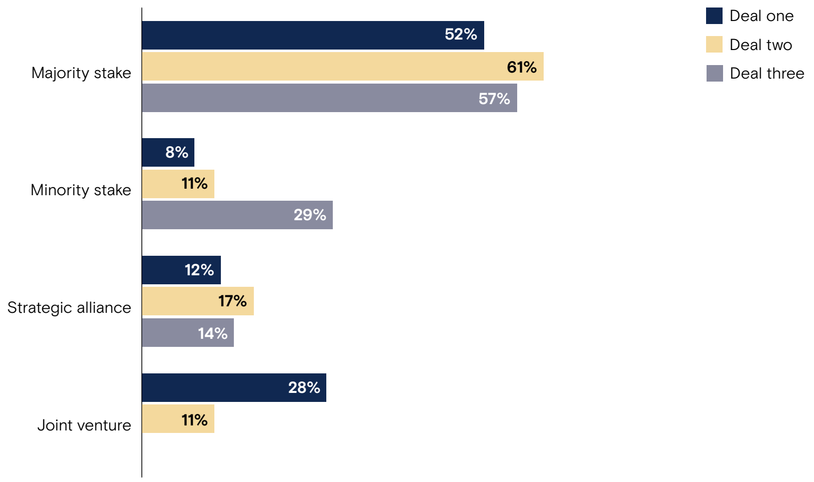
Looking at the size of respondents' previous deals, 76% say their last deal was worth US$101m-US$250m, while 16% conducted a deal worth US$16m-US$100m. Only 8% of respondents worked on a deal worth more than US$250m.

In terms of deal structure, 52% of respondents say their previous deal was a majority stake acquisition, while 28% conducted a joint venture. Private businesses are most attractive to buyers. The survey found 92% of respondents say the seller involved in their previous deal was a privately-owned business.

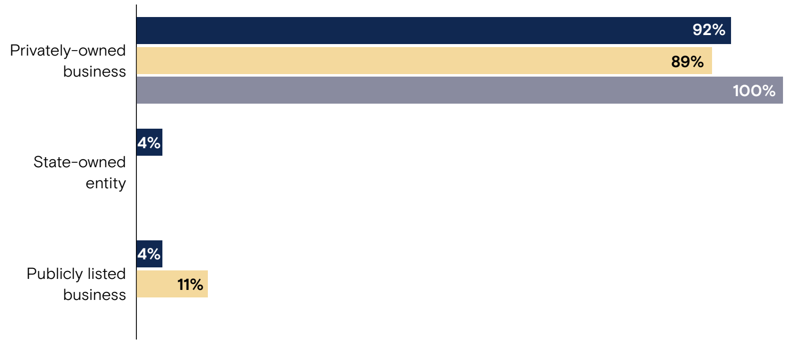
According to a UK-based PE firm partner, it chooses to work with privately-owned companies due to the relative ease with which business can be done. "Negotiating and targeting privately-owned companies is definitely easier," he says. "This helps reduce the overall complexities that we face when negotiating and working out new business strategies."

There are also advantages in dealing with state-owned entities through PPP arrangements, notes the managing director of a US-based development finance institute. "In African nations, we prefer investing through public-private partnerships as a collaboration with government eases the tension of getting regulatory approvals, which can be a tedious task otherwise."

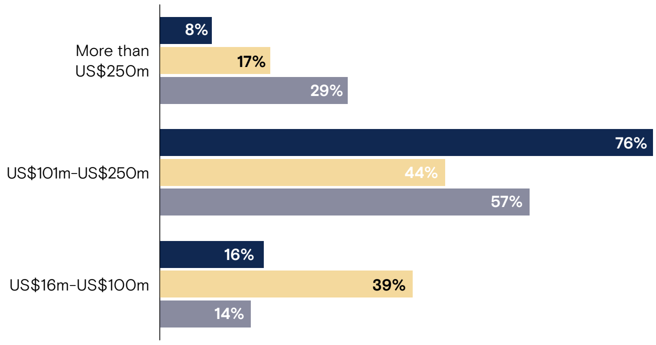
What type of deals were the last three deals you worked on?



In your last three M&A deals in Africa, what best describes your seller?



What size were the three deals you last worked on?



The continent's rising stars: Angola, Kenya and Uganda

ANGOLA

Angola is seen as a likely host of increased deal activity in the future. It is the continent's second largest oil producer after Nigeria and one of its strongest suits is its untapped economic potential. Its 27.4 million population has a per capita income of $3,514, according to the IMF.

Furthermore, the government in Luanda has sought to upgrade its investment regulations, introducing a new Private Investment Law in August 2015 that has enhanced the private/foreign investment legal framework in Angola. It has also created the National Agency for Promotion of Investment and Exportations of Angola (Agencia para a Promocao de Investimento e Exportacoes de Angola - APIEX).

Such moves are intended to boost growth and diversification, and enhance private-sector participation in Angola's economic development – although the dominance of state-owned enterprises remains a challenge for investors.

KENYA

Kenya presents more familiar terrain for African dealmakers. The country is supported by strong economic fundamentals, with a GDP of US$70.5bn for 2016, up from US$63.8bn in 2015 and predicted to grow a further 5.5% in 2017, according to World Bank data.

Recent macro indicators are generally positive, underscoring a wider sense that the more diversified economies congregated in Africa's east have performed better on the whole than the oil-dominated economies in the west.

Despite the anticipation of a difficult election, Kenya still saw a number of important deals in the first half of the year. There have been 13 transactions recorded so far, including the US$2.6bn acquisition of 34.94% stake in telecommunications company Safaricom by South Africa's Vodacom Group. Others include the US$100m purchase of a 75% stake in broadband infrastructure company CSquared by Japan's Mitsui & Co, the International Finance Corporation, Alphabet Inc (parent of Google Inc) and Convergence Partners Management Ltd. Another notable consumer segment deal saw the purchase of Kenyan Coca-Cola franchised bottler and distributer, Equator Bottlers by Coca-Cola Beverages Africa for US$80m.

Deals involving Kenyan buyers and sellers are also on the agenda. In March, Kenya's Diamond Trust Bank announced it would buy Pakistan-owned Habib Kenya for US$17.5m. The acquisition is one of a number of banking sector consolidation moves since the closure of three banks in 2015 amid an increase in bad debts.

UGANDA

Uganda has exhibited robust growth credentials, something that has not gone unnoticed by prospective dealmakers. Uganda's economy is predicted to expand by 5.2% in 2017/2018, helped by infrastructure spending and foreign investment in the oil industry, according to the World Bank forecast in February 2017.

Uganda is beginning to appear on buyers' radars – with its burgeoning oil and gas sector front and centre. The largest deal involved French oil major Total's acquisition of a 22% stake in Uganda's Lake Albert oil project in January 2017. Through the transaction, it acquired Tullow Oil's Exploration Areas 1, 2 and 3 for US$900m and obtained a controlling stake in its development.

Other notable deals include the purchase by East African PE fund Ascent Capital Africa of a 60% stake in Ugandan healthcare company Guardian Health Pharmacy; and the acquisition of Sadolin Paints (Uganda) by South African paint producer Kansai Plascon Africa Limited.

More stability is expected following the country's imminent accession to Africa's select group of hydrocarbons economies. The award of oil production and exploration licences in 2016 "could accelerate FDI inflows, infrastructure development, employment and the development of local industries," the World Bank noted.

There do, however, remain some concerns. Uganda's debt repayments and interest payments account for 30% of the total 2017/18 budget, which has raised apprehension among analysts surrounding the country's future economic growth.

Conclusion

The relatively weak M&A activity seen this year should not deceive dealmakers about Africa's future potential. Nor should it lead executives to believe that the continent is purely a resources play – though it will continue to be a focus for oil, gas, energy and mining players.

NEW SECTOR GROWTH

Our survey reveals a strong appetite for doing deals that reflect some of the less widely appreciated attractions of Africa – its burgeoning TMT sector for example, and a still untapped consumer segment which exhibits the kind of growth dynamics that were once associated with India and China. The green shoots of this scene are evident in combined 2016 and H1 2017 figures, which show that consumer M&A had the joint highest share of total deal value at 29% (together with EMU).

Dealmakers' intentions are clear; rapid urbanisation and an expanding middle class are creating new opportunities for inorganic growth in untapped markets. Fast-moving consumption patterns are piquing investor interest and will drive dealmaking through 2017 and 2018, our survey indicates.

OPPORTUNITIES AND CHALLENGES

While price volatility is continuing to hinder deals in sectors such as energy, our respondents point out that the recent phase of low commodity prices have created some attractive buying options. As the CIO of an African sovereign wealth fund says, "with prices falling, it is easier to make acquisitions in the energy sector."

The biggest challenges facing dealmakers in Africa are familiar to other global regions; political risk is one of the pitfalls confronting both buyers and sellers. South Africa's current difficulties have raised questions about the country's hitherto well-regarded business climate. Investor anxiety at recent executive decisions has been picked up by M&A players. If the continent's most advanced economy is capable of exhibiting the symptoms of less developed African countries, some may want to tread more carefully in the future. And the issue of political risk reaches across the continent - tensions surrounding Kenya's October elections are also causing investors to be wary.

Ethical and compliance concerns are also a major bugbear for M&A practitioners looking to carry out deals in Africa. Becoming involved in a regulatory or criminal investigation is one of the highest risks related to an M&A transaction. This has led dealmakers to take control of the situation whenever ethical or compliance standards appear compromised. Similarly, issues such as a lack of transparency and sizeable valuation gaps create obstacles to future dealmaking in Africa.

Our respondents say there are ways of mitigating such risk, and circumventing the challenges. Co-investing has emerged as a key theme for dealmakers, and will likely figure even more significantly in future. Devising tax strategies to overcome challenges to the repatriation of profits is another means of ensuring that African deals have attractive outcomes. Equally, paying strong attention to ethical and compliance standards is an essential component of deal success, our respondents conclude.

If these messages are absorbed, Africa's recently becalmed M&A market should once again show signs of its former vigour.

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