Climb aboard the African e-commerce express with Imara

DAVID STEVENSON, 21/05/2021

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Africa is the fastest growing continent on the earth. Some may bemoan that it's coming from a lowly place while others still consider it a natural resources play and beholden to the price of both hard and soft commodities. However, investors keen to be part of the charging elephant that is the African fintech revolution could do a lot worse than looking at Imara Asset Management's Fintech Fund.

It's quite a well-known narrative how Africa leapfrogged the landline telephone generation by moving straight to mobiles and while fund manager Tony Schroenn remarks that many didn't believe that Africans could afford the devices, he went on to say that over 45 percent of Africans now have smart phones (almost double that amount have a mobile of some sort) as they 'like everyone, love to talk'.

While the level of non-cash payments on the continent is low at present, around 2 percent, Mr Schroenn believes it is only a matter of time for this number to increase. He pointed out the sheer logistical difficulties of sending money to people in the many villages that surround cities in countries like Kenya. He said that once someone had taken the time to travel to a village, paid for the transport, they could lose up to 20 percent of the intended cash transaction.

Although the Fintech revolution is clearly underway in Africa, it has a long way to go. The fund invests in highly liquid companies, many of which are multinationals such as Vodafone. The company's Kenya division, aptly named Safari, has its own money transfer service called M-Pesa. Vodafone has a dominant market share of Kenya thereby enjoying an economic moat that doesn't look like disappearing anytime soon. Compared to losing 20 percent in the above example, MPASA charges a 2 percent commission.

When the subject of corruption is raised, Mr Schroenn admits that it's still a problem in the region although Harry Wulfsohn, joint CEO of Imara, said: "These trends are happening irrespective of the politics and commodity prices. The transition from cash payments is going to happen."

Another benefit of investing in well-known listed companies is that these firms need to abide by international laws and simply cannot afford a scandal brought about by corruption claims. While the fund is mostly invested in listed stocks it will take a look at unquoted companies although these will most likely be firms on the cusp of an IPO, again reducing risk levels for investors.

Mr Wulfsohn is also slightly frustrated by what some might deem a patronising view of investing in Africa. "There's a very wide gap between what investors understand the risk is to what the risks really are," he said.

While most of the indices in Africa are in frontier markets, with the exception of South Africa, Mr Schroenn thinks that with a Biden administration, an uptick in commodity prices, the future is looking bright for the dark continent. He said that unlike Fintech firms listed in developed markets which are usually just growth stocks, the holdings in his fund even provide a decent dividend yield. Therefore, the fund is invested in a young market which is most likely to become more popular supplying decent levels of growth with the added bonus of generating some income as well.

The global pandemic has also acted as a catalyst for the transition to non-cash payments. Lockdowns essentially forced service providers onto payment platforms to reach their customers as well as bolstering the need to send payments digitally. This is due to the health implications of handling money which could spread Covid although should certainly be a boon for this fund.

Even if investors may not quite yet realise the potential of Africa, many of the world's largest tech firms certainly have, with the likes of Amazon, Facebook, Microsoft and Google all piling into the continent. Imara has a great deal of experience in the region, having launched a pan Africa Fund in 2012 which has consistently beaten its benchmark.

While Mr Schroenn doesn't agree with the idea that Africa is a resources play, he said: "However, good commodities create good vibes for emerging markets." For investors wanting to be part of what is surely going to be a payments revolution, the fund holds highly liquid attractively valued stocks which are set to benefit from the inevitable shift.

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