



Africa

Is Zimbabwe the true survivor?

by **PETER LEGER**



***PETER LEGER** joined Coronation in April 2005 as a portfolio manager. He has 13 years' experience in the financial markets in Africa as both a portfolio manager and research analyst. Peter currently heads up the Africa ex-SA unit for Coronation, which includes the Coronation Africa and Coronation Africa Frontier Funds.*

Many of you will be familiar with the TV reality show 'Survivor' – a competition where contestants are stranded in a remote location with little more than the clothes on their backs. The competitors need to survive as a tribe, but in truth it is everyone for themselves. Alliances are forged and symbiotic compromises made in the interest of survival. One by one, team members fall as only the resilient remain. As the series by-line goes: Outwit. Outplay. Outlast. It makes for entertaining viewing and reveals the lengths and depths of human cunning, versatility and resourcefulness.

The economic and business equivalent of this TV series has to be the role of chief executive officer in the average Zimbabwean business. The resourcefulness displayed by these individuals overshadows anything you might see on Survivor. We have written in the past about Zimbabwe, but it's worth reflecting a little more deeply on just how remarkable the story of survival has been.

Can you imagine a world where prices change constantly; where a beer bought at the beginning of a meal costs less than one bought at the end, and where the bus fare changes as the journey progresses? It is a world where regulated prices make a mockery of service charges, such as the cost of a mobile call which results in users not hanging up and keeping a line 'live' for hours. Inflation has made the cost of a call negligible and network congestion makes it impossible to get through once you've hung up. Now multiply these challenges tenfold and you will find yourself in the shoes of a chief executive officer trying to keep his business afloat in Zimbabwe.

The first casualties of hyperinflation are financial services businesses. The mortgage book is inflated away, pricing risk

correctly is extremely difficult, insurance businesses need price stability to price product and so forth. Once Zimbabwe dollarised, the banks were left shadows of their former selves, insurance businesses had their books devastated and on the positive side, the economy had virtually zero debt.

Now add price controls to this for consumer products. This wipes out your industrial companies as the profit incentive to produce is eliminated, and sales become an exercise in destocking and putting manufacturing capacity on care and maintenance in the hope that one day sanity and normality will return.

At this stage, all businesses find themselves with staff who cannot access food, energy or healthcare, and the wages they receive have no purchasing value. The system freezes up and survival becomes incredibly difficult. But many Zimbabwean companies have survived, and a few even thrived. The likes of Econet (mobile operator) stared fixedly down the tunnel in the hope of some light. They struck deals with Chinese equipment makers to finance capital expenditure, enabling them to keep rolling out capacity, convinced that one day the madness would stop. And today a great deal of the madness has stopped. Econet is an extremely successful business in a virtually unassailable competitive position.

The environment in Zimbabwe today is greatly improved, yet still tough. The government of national unity is a disaster and Zanu-PF doggedly does what it can to undermine any economic upliftment – holding the misguided view that a downtrodden proletariat can be subjugated. Despite this, companies are producing solid results and some are producing sterling results. The brewer, Delta, is running close to historical peak capacities. Zimplats, in the face of

lunatic indigenisation demands, continues to see its parent, Implats, invest heavily in growing mining and processing capacity. As an investor, the political noise emanating from Zimbabwe has, on the whole, been horrible this year. Yet it has been one of the better performing markets in Africa this year. This is because despite a tough environment, resilient management teams are doing a great job steering their businesses.

Equity prices and attitudes to the region reflect the political noise and remote perspective of Zimbabwe. We don't make light of the risks of investing in Zimbabwe. But what attracts us is the overly aggressive discounting that investors price into Zimbabwean assets. If one prices in the reality, valuations are extremely attractive. To a foreign investor, the word 'indigenisation' is synonymous with confiscation. We often

wonder, would the media be less critical if the word 'taxation' had been used instead? Higher taxation has become all the vogue globally: the UK has seen every form of tax dramatically increased; Australia has targeted commodity companies aggressively for higher taxes, and the US is in deep debate as to how taxes can be increased. Yet the additional risk that has been priced into these markets has not been particularly taxing!

We have material exposure to Zimbabwe. We don't expect it to be a comfortable ride. However, we do think, in time, the aversely cautious perspective of Zimbabwe will drift towards the reality, and investors will be handsomely rewarded for backing proven survivors. Those that have outwitted, outplayed and outlasted. 🇬🇧

Zimbabwean exposure accounts for 12% of the Coronation Africa Frontiers Fund.