

Q&A

Yields on Congo, Nigeria Eurobonds Look Attractive, Says Voltan CIO Graham

The sovereign eurobonds from the Republic of Congo and Nigeria look attractive, according to **Alison Graham**, chief investment officer at **Voltan Capital**. On the equities side, Nigerian banks appear cheap, though it may be best to wait for a devaluation before investing. Also, the health care, private education and distributed manufacturing sectors look interesting for investors willing to take on greenfield projects, she told Bloomberg Brief Editor James Batty in a March 8 interview. The Voltan Frontier Markets Fund, holds only equities and may look to buy bonds. Her comments have been edited and condensed.

Q: Where's the opportunity in Africa?

A: Venture capital is where the most opportunities lie, especially [for] those willing to build a greenfield project. One of the sectors we like is health care. There's large demand and bottlenecks in certain subsectors like medical imaging. In Ethiopia, for example, there's only four MRI scanners in the whole country, so an idea we're examining is to establish a medical imaging facility. In terms of listed securities, it's the same theme — is there a bottleneck that somebody is resolving that makes the company valuable? In Cameroon, for example, there's a company called Victoria Oil & Gas, which managed to develop a natural gas field and pipeline network and electricity network to go with it. It really managed to help all the industry in the Douala area by increasing the heat and energy supply. We bought a stake in them on London's Alternative Investment Market.

Q: What other sectors do you like?

A: Private education, it's booming in Asia but has only just started in Africa. Either vocational training, language training or college prep with a high-quality brand name. Another is distributed manufacturing. Instead of transporting consumer goods and spare parts for industry over long distances you could set up smaller-scale factories in local areas and make things onsite. As industrial 3D printing evolves, that will become easier.

Q: How do you trade illiquid equities?

A: Look carefully at who else owns shares in the companies that you own. Three of the largest funds investing in Africa are mutual fund structures, with daily redemptions, and that increases the volatility of shares. We have stayed away from the very large liquid stocks as we are worried about fund flows.

Q: What's your focus?

A: On the traded side we tend to look for volatility. We're finding that Nigerian banks are cheap, we own a little, but it is better to wait until devaluation of the naira happens before buying more. When the devaluation happens, Nigerian banks are as cheap as they have ever been.

Q: When do you expect that?

A: Within the next year the currency issue will be resolved one way or another. I suspect they'll do what they have always done in the past: a fairly substantial one-off devaluation and then re-peg it at a different band. There is some amount of speculation in the black market price beyond the economic level a free market would set. As a rough guide, I presume the currency would slightly overshoot then settle back to something around 10 percent better than the black market rate, if allowed to float freely. The central bank would have already done it if they didn't have a president who is philosophically opposed to devaluation.

Q: What's your sovereign debt strategy?

A: It changed recently. Up until a year ago, yields on sovereign eurobonds in Africa looked quite low. There was a lot of issuance and a lot of demand. On the other hand, Nigerian treasury bills — where you could get a 15 percent yield in

the currency — were more attractive. Now, we have almost the opposite situation. We're actually doing more of the dollar sovereigns now.

Q: What countries?

A: The Republic of Congo. It's a copper economy, logically you would think not the best bet at the moment, but the yield is around 11.8 percent and it's a sinkable [bond]. It's not a huge amount of money, and it is a very long duration, so I think they will be able to make the coupons and the sinking portion fairly easily. Also, Nigerian eurobond sovereigns. It's an oil economy, the stock market's tanked, the currency looks bad, but on the sovereign debt side, they still have a very low debt-to-GDP ratio, and they are still an oil producer, so it's not like their income has gone to zero.

Q: Where else?

A: Ivory Coast is doing quite well, but we are not doing much there as the local stock exchange is fairly illiquid and reasonably well-priced. A large part of why they have done well is because of their focus on governance and administration.

Q: What's your view of South Africa?

A: I think a downgrade is likely as the economic management there isn't particularly strong. They are managing themselves into a dead end.

Q: Do you hedge FX exposure?

A: We don't. The commissions you pay to the banks wipe out a large part of what you are trying to hedge, and it only makes sense if the forward rate is substantially different from where you think the forward rate should be.

AT A GLANCE



Residence: New York

Education: Masters from University of California at Berkeley

Favorite restaurant in Africa: La Gondwana in Ouagadougou, Burkina Faso for the art and atmosphere

Favorite city in Africa: Zanzibar City

Hobbies: Running marathons, tango

If You Had Another Career, You'd Be: An opera singer