



South Suez Capital
AFRICAN PRIVATE EQUITY SPECIALISTS

COVID-19 UPDATE

HOW THE COVID-19 PANDEMIC IS ACCELERATING DISRUPTION IN AFRICA

22 April 2020

1. Introduction.

In the space of a few weeks, the COVID-19 pandemic has had a profound impact on economies, habits, and humanity's way of life. The situation is changing rapidly, and policymakers, business leaders and individuals are all seeking to respond, with limited information and certainty. With almost half of the world's population currently under some form of lockdown, schools closed and offices empty, the internet is proving to be a lifeline to the outside world for billions of people. It is enabling students and teachers to connect, healthcare workers to provide life-saving advice and allowing many businesses to continue to operate with much of its staff working remotely. Companies that have taken steps to embrace digital technologies will face less disruption than those still relying on more traditional and manual methods.

In Africa, we have already witnessed significant disruption from the penetration of mobile phones and digital infrastructure, which are enabling businesses to provide services that previously were not available, especially in rural communities. We are now witnessing an acceleration in this disruption brought about by the pandemic, which has placed further importance on digital infrastructure as an enabler of value creation.

Given this backdrop, we have sought to highlight some of the social distancing impacts that relate to our current portfolios and investment thinking, including:



Increased investor appetite for **digital infrastructure**



A boom in Africa cloud computing and the consequential need for **data centers**



How COVID-19 is accelerating growth in **distance learning** in Africa



How COVID-19 is accelerating the growth in **mobile and online payments**

2. Growing demand for digital infrastructure globally

Tower and data centers have been resilient during COVID-19 and there has been a notable increase in demand, as investors increase their allocation to defensive stocks. Digital infrastructure is key to enabling consumers to work and learn digitally and has been core to allowing commerce to continue. A new World Bank report suggests that around \$100 billion of investment would be needed to achieve universal access to broadband connectivity in Africa by 2030, with estimates that nearly 250,000 new 4G base stations and at least 250,000 kilometers of new fiber across the region would be required to achieve the goal.

Telecom towers have been a core investment theme across the South Suez funds, representing 11% of total current cost and 13% of total fair value¹.

The increase in global demand for digital infrastructure is illustrated by the recent trading performance of Helios Towers Africa, which initially listed in 2019 at 115 pence per share, traded down to 82 pence at the onset of COVID-19 and has since rallied to over 130 pence a share. With hard currency, long dated contracts in place with the Mobile Network Operators (“MNOs”), the tower



operators have strong margins and will also benefit from lower oil prices globally. Another portfolio company in the towers space is seeking an international listing in the next 12 months.

3. Africa’s cloud computing boom is creating a data centre gold rush

Prior to the COVID-19 pandemic, investors were allocating significant capital to the African cloud computing market, as the proliferation of smart phones and mass adoption of business software on the African continent has led to soaring demand. We believe this theme will only accelerate post the pandemic.



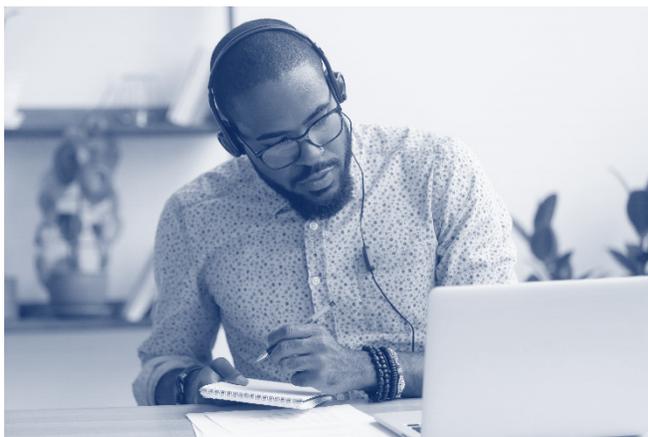
According to Xalam Analytics, Africa currently accounts for less than 1% of total available global data center capacity, despite being home to about 17% of the world's population. However, its capacity has doubled over the past 3 years and we expect Africa to continue to follow the same global trends of increased consumption and cloud migration. Localisation of data storage significantly improves connection speeds and many of the governments in Africa are mandating this localisation, which will serve to be a further driver to the growth and demand.

Last year Boston-based PE firm Berkshire Partners acquired a stake in Teraco Data Environments in South Africa and Microsoft launched its first African cloud data centers in South Africa. Amazon Web Services is planning to open a cluster of centers in Cape Town.

Data centers represent a core investment theme in the South Suez funds. In South Suez Africa Fund II, one of our managers, Actis, are in the process of establishing a \$250m pan-African data center platform as part of its real estate portfolio. The first investment is a majority stake in Rack Centre, a leading co-location business in Nigeria, which has a certified Tier III data center in Lagos (the largest installed capacity in West Africa). Furthermore, many of our large-cap managers have data center platform builds in their pipelines.

4. How COVID-19 is Accelerating the Disruption of Higher Education in Africa

Higher education is an industry projected to register \$10 trillion globally. In a matter of weeks, coronavirus has changed how students are educated around the world and these changes could permanently alter the future of the industry globally.



In the US, technology firms have begun partnering with world class universities to offer up to 80% of a traditional four-year degree online for half the traditional 'on campus' price. Geography needs no longer be a constraining factor to accessing the best teachers and material. Many programs could be soon hybridized, dramatically increasing enrollments for the best brands. This is a model that could do particularly well in Africa, with a young, urbanizing population thirsty for knowledge but without the globally recognized intuitions that are available in the developed world.

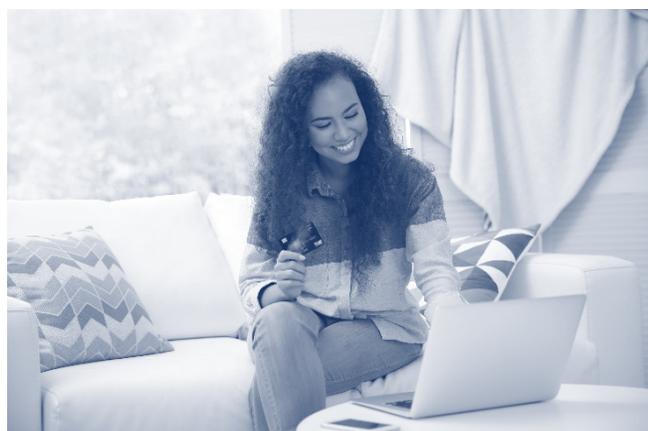
With the coronavirus now spreading rapidly across parts of Africa, countries have taken swift and decisive actions to mitigate the development of a full-blown pandemic. Most countries are in lockdown, with attendance at schools and universities suspended indefinitely. These lockdowns means that millions of students around the world and on the African continent are being home-schooled and importantly, using digital tools to access materials. These changes have certainly caused a degree of inconvenience, but they have also prompted new examples of educational innovation. Traditional in-person classroom learning can be complemented with new learning modalities; from live broadcasts from 'educational influencers' to virtual reality experiences.

For all the Universities, maintaining an online presence and allowing students to attend 'virtually' could be a massive opportunity to leverage existing resources and increase the efficiency of the group structure and increase margins.

If we look at the current South Suez portfolio, education makes up 7% by cost. The reaction to the pandemic and the resultant lockdowns has been consistent across the portfolio companies. Universite Privee du Marrakesh and Nahda University (in Morocco and Egypt respectively) have substantially increased their digital learning platform, with the majority of tutorials and lessons now available online. Richfield, a private sector tertiary education provider in South Africa, has been able to rapidly pivot to distance learning given that much of technology was already in place. This is a key differentiator to other sector players, in particular the government institutions that are playing catch-up.

5. The COVID-19 pandemic is accelerating the growth in mobile and online payments

Africa continues to lead the world in mobile money services. In 2019, 50 million sub-Saharan Africans created a mobile-money account via a handheld device, representing a 12% increase compared to 2018 and bringing the total number of users up to 469 million across the region. The total value of transactions carried out in 2019 exceeds \$456bn, representing a nearly 28% jump over 2018 numbers. This figure is 3.5 times the value of transactions recorded in South Asia, the second-highest ranked region in terms of



mobile-money services. The already rapid growth expected in 2020 will no doubt be further enhanced by the COVID-19 pandemic.

Mobile and online payments are payments continues to be a core theme for South Suez, with exposure through our generalist managers and through APIS, with commitments to both Apis I and II, a sector specialist Manager focusing on high growth capital-light financial services, including dedicated infrastructure payment systems and associated technology enablers. This represents approximately 6% of our portfolio.

One of our portfolio companies, Transfast, was recently acquired by Mastercard and another, Interswitch, has just acquired Visa as an investor. Another company, CodaPay, which processes payments from online gaming, expects a meaningful increase in the number of clients and transactions, due to the lockdown. A number of the South Suez portfolio companies have reacted quickly, securing additional lending facilities from trusted partners, to ensure that they can meet their working capital needs over the next few months, as growth in many of these sub-segments require capex spending. In addition, they are ensuring strong balance sheets in order to take advantage of potential acquisition opportunities that might result from the crisis.