REFLECTIONS OF A VALUE INVESTOR IN AFRICA

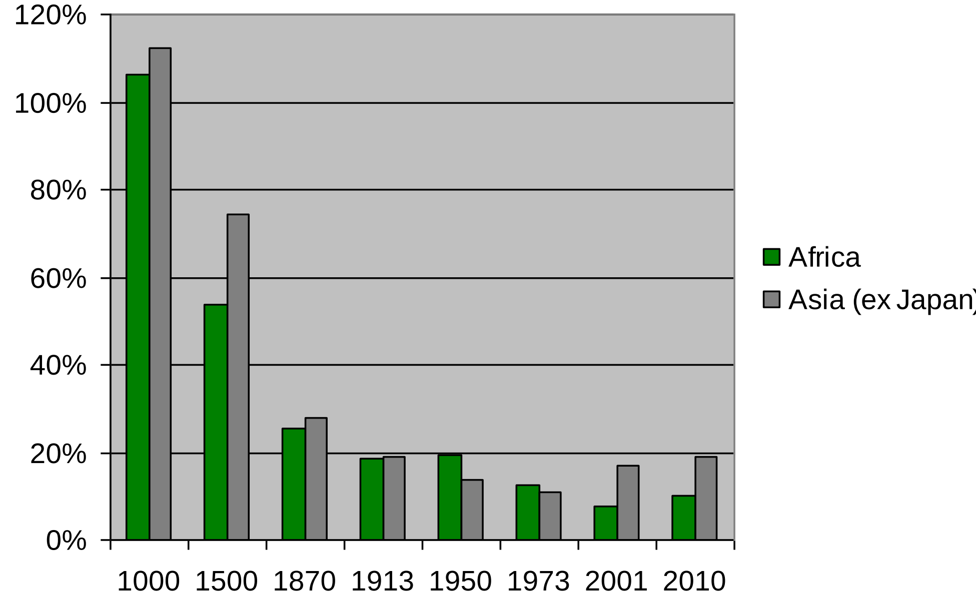
Grant's Fall Conference: 19 October 2010

Africa Today – Attractive Investment Opportunity

Strategic Advantages

- Favorable demographic trends.
- Improved public finances, structurally lower inflation and higher savings from commodity windfall.
- Improving rule of law, freedom of press, independent judiciary, and business environment.
- Africa trade with China has grown 10X from $10 billion in 2000 to over $100 billion in 2010.
- If Africa grows to reach Asia's current GDP discount to Europe, it will double (see figure). In addition, the relative gap between emerging markets and Europe should close.

GDP per Capita, % of European Average



Source: Angus Maddison, The World Economy: Historical Statistics (OECD)

Strong GDP Growth

IMF World Economic Outlook calculates 5.4% annual GDP growth through 2015 for sub-Saharan Africa.

Real GDP
(Annual percent change)

	Actual	IMF Forecast		
	2009	**2010**	**2011**	**2015**
Sub-Sahara Africa	2.6	5.0	5.5	5.4
Developing Asia	6.9	9.4	8.4	8.5
Central & Eastern Europe	-3.6	3.7	3.1	4.1
Middle East	2.0	4.1	5.1	4.9
Russia	-7.9	4.0	4.3	4.0
Brazil	-0.2	7.5	4.1	4.1
Mexico	-6.5	5.0	3.9	3.8

Source: 2010 IMF World Economic Outlook

Relative Strength vs. Relative Perception

Africa Today – Compelling Performance

Positive GDP Growth

- 11 of 25 fastest growing economies in the last ten years located in Africa.
- 12 of 25 fastest growing economies in the next five years forecast by IMF located in Africa.

Cumulative Economic Growth					
Rank	Country	Historic	Rank	Country	Forecast
1	**Equatorial Guinea**	**324%**	**1**	**Liberia**	**68%**
2	Azerbaijan	262%	2	Turkmenistan	59%
3	Turkmenistan	248%	3	China	58%
4	Qatar	206%	4	Mongolia	56%
5	**Angola**	**190%**	**5**	**Ghana**	**52%**
6	Myanmar	164%	6	Qatar	48%
7	China	157%	7	Timor-Leste	45%
8	**Sierra Leone**	**147%**	**8**	**Ethiopia**	**44%**
9	Bhutan	129%	9	India	43%
10	**Nigeria**	**119%**	**10**	**Botswana**	**43%**
11	**Chad**	**113%**	**11**	**Mauritania**	**43%**
12	Armenia	109%	**12**	**Angola**	**41%**
13	**Mozambique**	**108%**	**13**	**Tanzania**	**40%**
14	**Ethiopia**	**108%**	**14**	**DRC**	**39%**
15	Cambodia	107%	**15**	**Uganda**	**38%**
16	**Uganda**	**105%**	**16**	**Niger**	**38%**
17	Tajikistan	104%	**17**	**Libya**	**38%**
18	Kazakhstan	104%	18	Bhutan	37%
19	India	98%	19	Uzbekistan	37%
20	Vietnam	97%	20	Vietnam	36%
21	**Rwanda**	**94%**	21	Djibouti	35%
22	**Sudan**	**92%**	22	Bangladesh	34%
23	**Tanzania**	**92%**	**23**	**Mozambique**	**34%**
24	Uzbekistan	91%	24	Panama	34%
25	Belarus	90%	25	Cambodia	34%

Source: IMF

Value Investing Works in Africa – Predictable Earnings & Cheap Assets

- **Enormous latent demand exists for services readily available on other continents but are in short supply in Africa.**
  - Commercial banking, consumer finance, property and casualty insurance, life insurance, telephony, retail shopping
  - Like emerging middle classes everywhere, Africans want these services and pent-up demand guarantees growth

- **The increased exploitation of Africa's resources promises great profit for investors willing to finance their entry into streams of global commerce.**

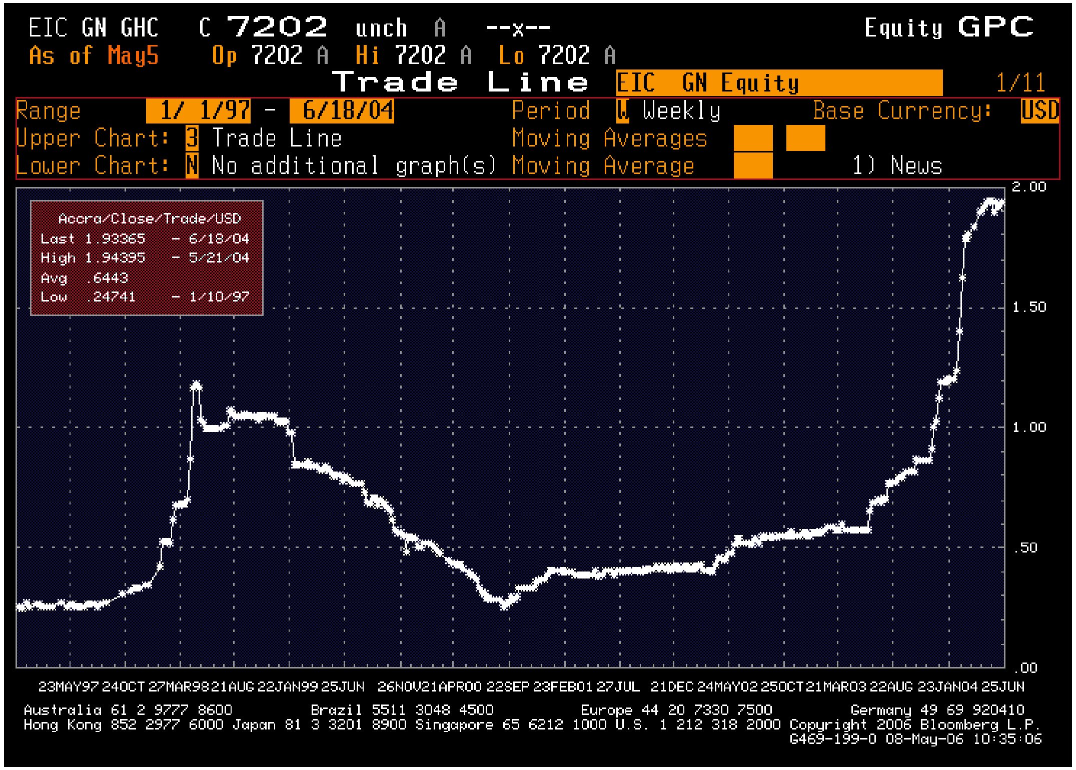
- **Investors earn high returns on capital because the continent is starved of capital.**

- **A continental portfolio provides an element of safety as the whole is more stable than its parts.**

Enterprise Insurance – *Case Study*

Deep Value Public Equity

- One of the most profitable property and casualty insurance companies in Ghana, PE approximately 4X, EPS growth 40%.
- Extremely conservative accounting: positive mark-market changes in equity portfolio carried on balance sheet only, not in income statement (no impact on earnings).
- Initial investment in head office building still on the books at early 1970s historical cost.
- Great management: never incurred an underwriting loss in 75 year history.
- Portion of earnings in US$, providing a natural currency hedge (CEDI under extreme pressure with all emerging market currencies in late 90s).
- Effective net interest margin 40% (effective borrowing rate was 0%, local government bond interest rates approximately 40%).
- Invested gradually during calendar year 1997.
- 1400% US$ return over 9 years, realized in 2005.



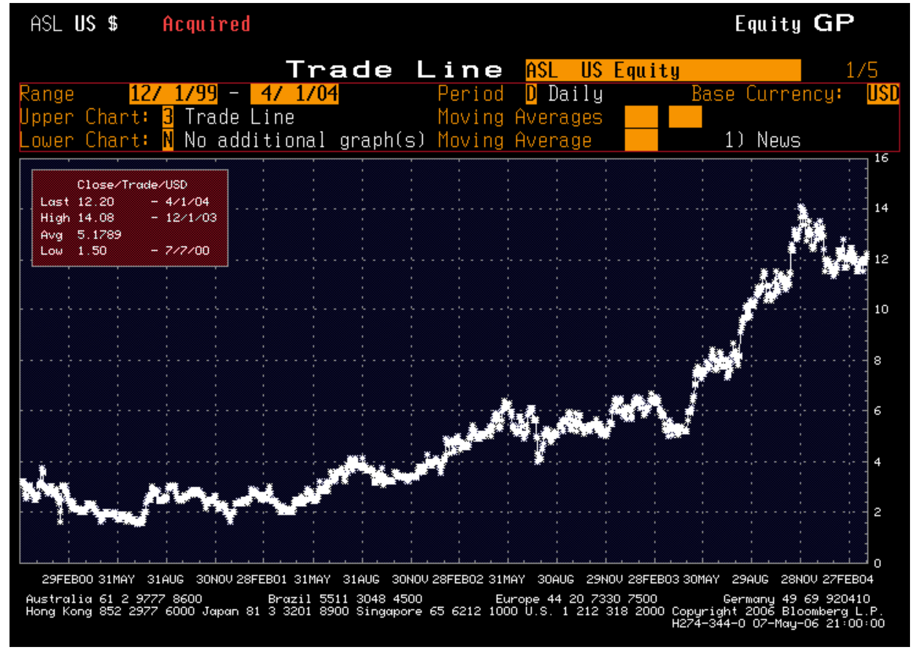
Ashanti Goldfields – *Case Study*

Distressed Debt

- Gold price spiked from $255 to $330 in Sep-Oct 1999.
- Ashanti Goldfield's hedge book threatened insolvency, shares and debt collapsed in price.
- Total debt equaled = $650 million, while gold reserves = 25+ million ounces. Hedge book liability = $400+ million.
- EV/reserves = $58, peer average above $180.
- Bonds acquired Q2 2000 at average of $65, 30%+ YTM.
- Held numerous meetings with management, presented plan for asset sale to board of directors. Robert Knapp joins Ad Hoc creditors committee.
- Bonds paid at par + accrued interest Summer 2002.

Turnaround

- Following sale of assets, refinancing of convertible notes, and increase in operating cash flow, shares did not appreciate.
- Equity acquired in Autumn 2001 below $4.00.
- AngloGold announced takeover offer in August 2003, exited investment summer 2003 above $8.00.




GRANT'S INVESTOR
www.grantsinvestor.com
March 30, 2001

Golden Yields, Part II

By Andrew Kashdan
Rose Ann Tortora

More from the world of dividend-paying precious metals: consider the convertible bonds of Ashanti Gold and the common stock of Impala Platinum.

Uramin Inc – *Case Study*

Private Equity

- Uranium exploration and development company with Trekkopje project in Namibia.
- Low grade, shallow deposit drilled extensively but mothballed in 1980s.
- Lead investor in July 2005 $30 million financing round, at $0.75 per share + warrants, pre-money valuation = $60 million.
- Francis Daniels joined board as part of financing.
- Shares listed in April 2006 on London AIM market at $1.20 per share. Subsequently listed in Toronto, market capitalization exceeded $1 billion early 2007.
- Uramin acquired by Areva at $7.75 per share in August 2007 at a valuation of $1.9 billion.
- Net return on private investment round approximately 10X in approximately two years.

URAMIN INC

(Incorporated and registered in the British Virgin Islands with registered number 643886)

Placing of 50,000,000 new Ordinary Shares of no par value at a price of $1.20 (68.5 pence) per new Ordinary Share

and

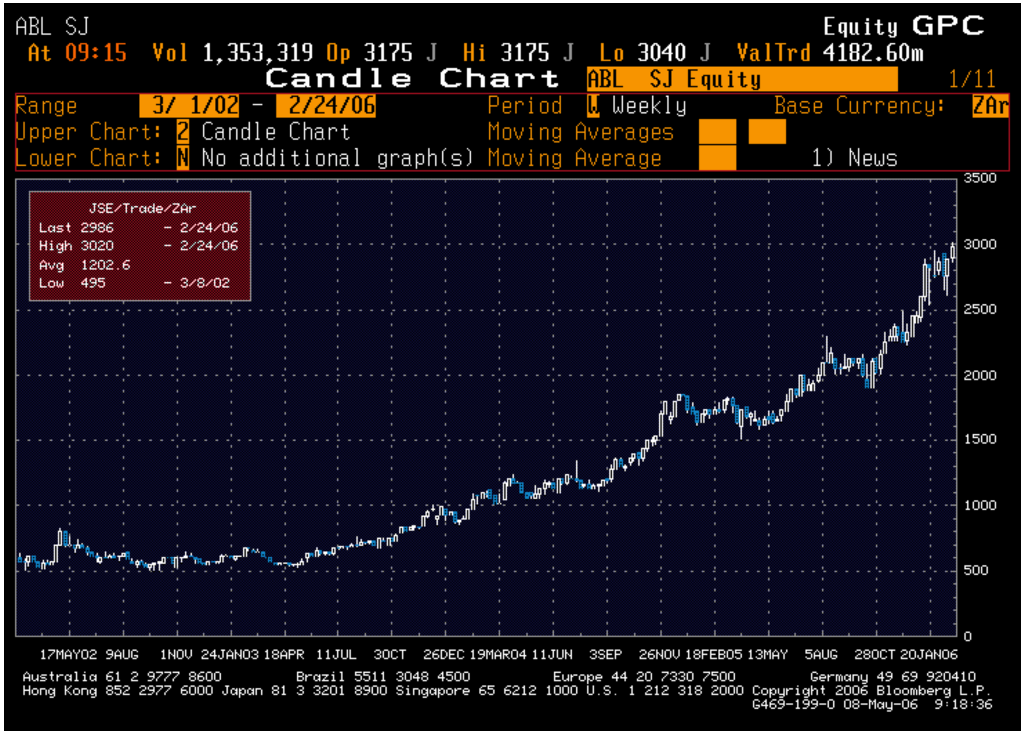
Admission to trading on AIM

Nominated Adviser	Broker	Placing Agent
Matrix Corporate Capital Limited	Canaccord Adams Limited	BMO Nesbitt Burns Inc.

African Bank Investments – *Case Study*

Turnaround and Growth Equity

- Largest consumer finance company in South Africa, EV $2.9 billion, ROE 40+%, PE 15X, P/B 6X, Dividend Yield 6.2%.
- After early microlending optimism in late 90s, sector collapsed and competitors, Sambou and Unifer, became insolvent.
- ABL shares declined from over ZAR 30 in June 1998 to below ZAR 5 in February 2002.
- After noting that ABL was borrowing long (5+ years) and lending short, initiated investment buying Senior notes yielding 14% and equity in range of ZAR 7 to 5 throughout 2002.
- ABL bought Sambou loan book out of liquidation, retrenched operations and improved credit assessment.
- In ensuing four years, shares appreciated 500% and paid out ZAR 5.50 in dividends per share.
- US$ Return over 900% during the period.
- Still a compelling opportunity in 2010: 14X PE, 2X book, 15% ROE, 5X dividend yield.



Acid Test of Predictability – Zimbabwe Politics and Economics 2000 – 2009

"…they gullibly imagined that to summon the people to political life was enough to attach them to their cause; and that, if they gave the people rights but no advantages, it was enough to make the Republic popular. **They forgot that their predecessors at the same time that they gave every peasant a vote did away with tithes, abolished the *corvee* and other seigniorial privileges, and divided the nobles' land among their former serfs**….to commit acts of violent injustice, it is not enough for a government to desire them, or even to have the ability to do them; **it is essential that the mores, ideas, and passions of the time lend themselves to the enterprise.**"

- Alexis de Tocqueville, Recollections, p.122,123 (Anchor Books, 1971).

"**Politics is rough** in West Africa. **Every party attracts its fringe of hooligans**, unimportant numerically, but highly important tactically. **They become bodyguards; they rough up party opponents and intimidate waverers**. In areas where chiefs are still powerful, their police do the same. To launch a new party in somebody else's area is a formidable exercise."

- W. Arthur Lewis, Politics in West Africa, p.17 (George Allen & Unwin, 1965).

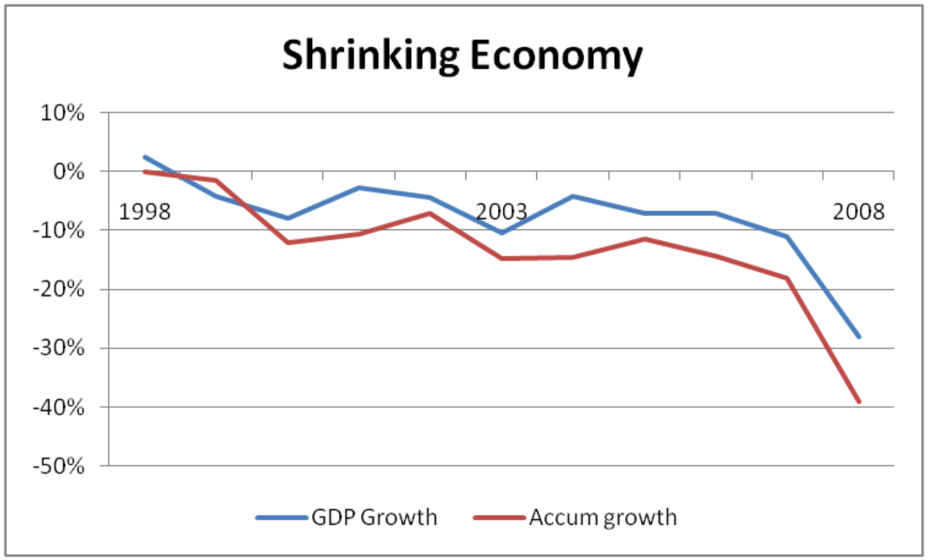
Politics & Economic Logic Provided Framework for Investment

- **Land reform had to occur.**
  - Mugabe faced stiff opposition in 2000 and Zimbabweans wanted change .
  - Land a source of historical conflict.
  - Mugabe had to nullify the threat of the MDC support in the rural areas.
- **Monetary constraints had to come to bear.**
  - Current account deficit since 1980 funded by foreign aid.
  - Reliance on on treasury bill and medium term note financing.
  - Reliance on the reserve bank buying those bonds.
- **The goverment would go to any lengths to get forex.**
  - State-controlled sector would need access to forex at priviledged rates.
  - The private sector was held in contempt and could be fleeced.

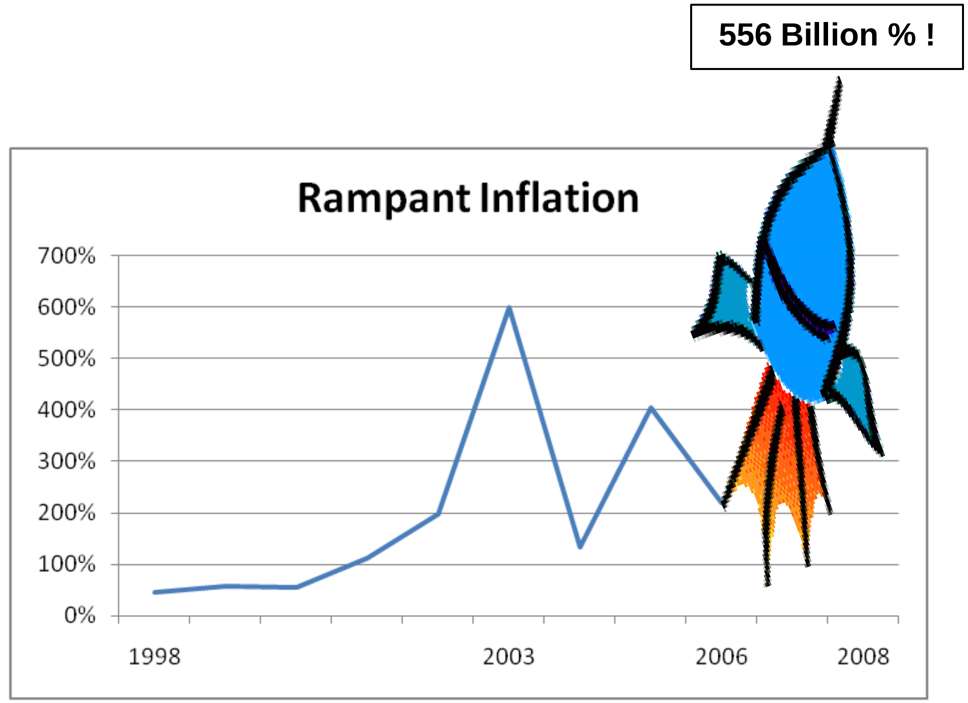
Anticipated

- **Destruction of the economic base**
  - Collapse of agriculture and manufacturing.
  - Decline in forex earnings.
  - Tax revenue decimated.
- **Continued rise in inflation**
  - Central bank purchase of govt debt to increase.
  - Hyperinflation possible.
- **There would be limits to state power**
  - Govt could not seize forex earned outside its borders.

Collapsing Zimbabwe – Could You Make Money?

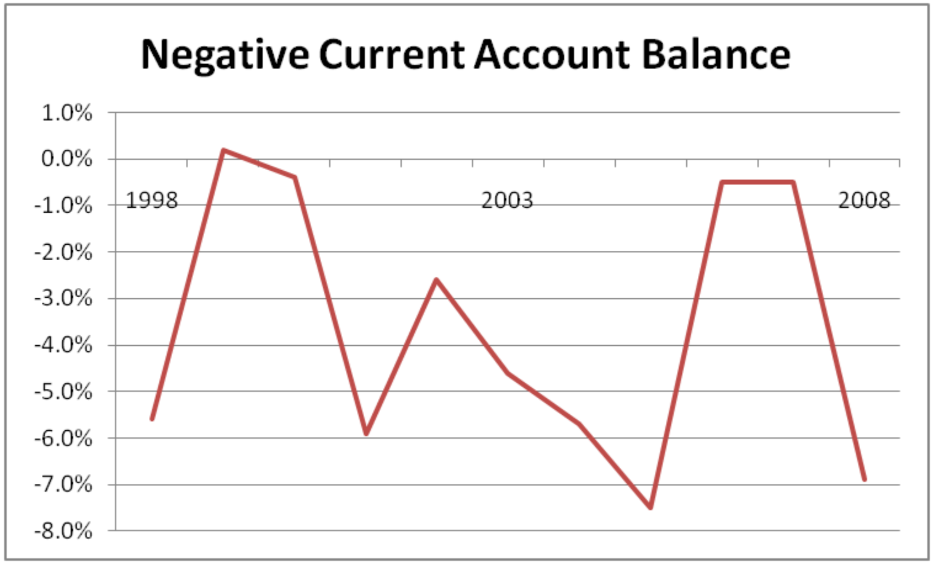


Source: IMF

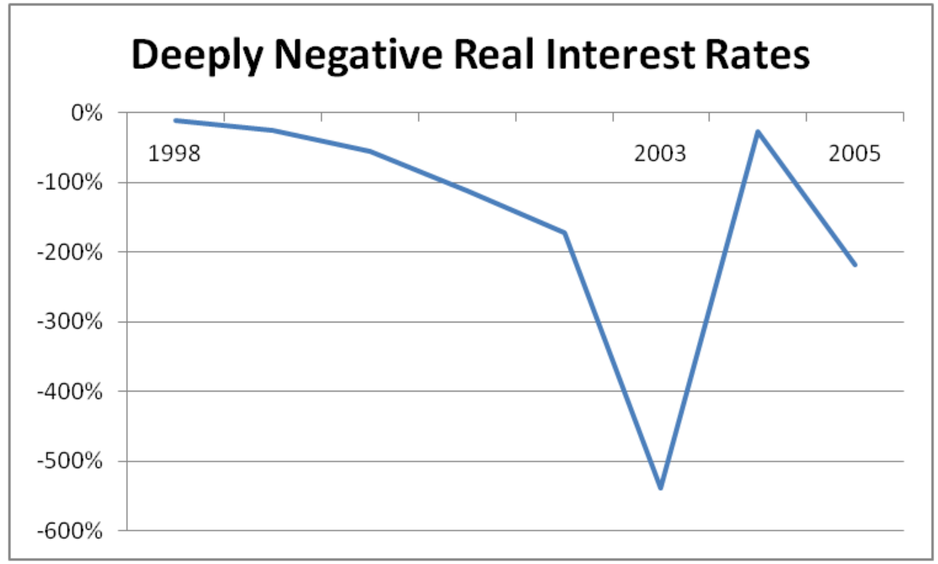


Source: IMF

Zimbabwe – Unsustainable Monetary Environment

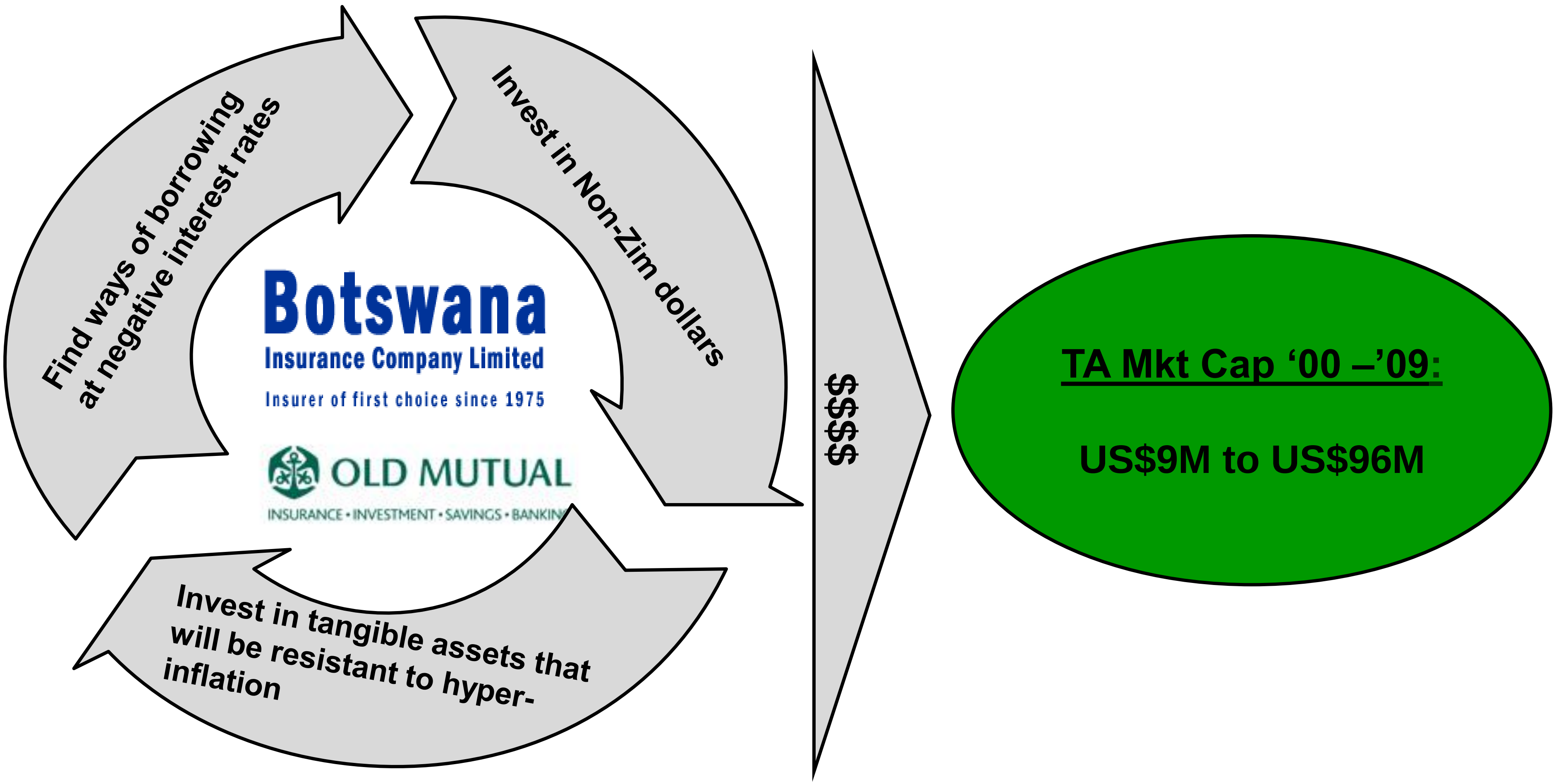


Source: IMF

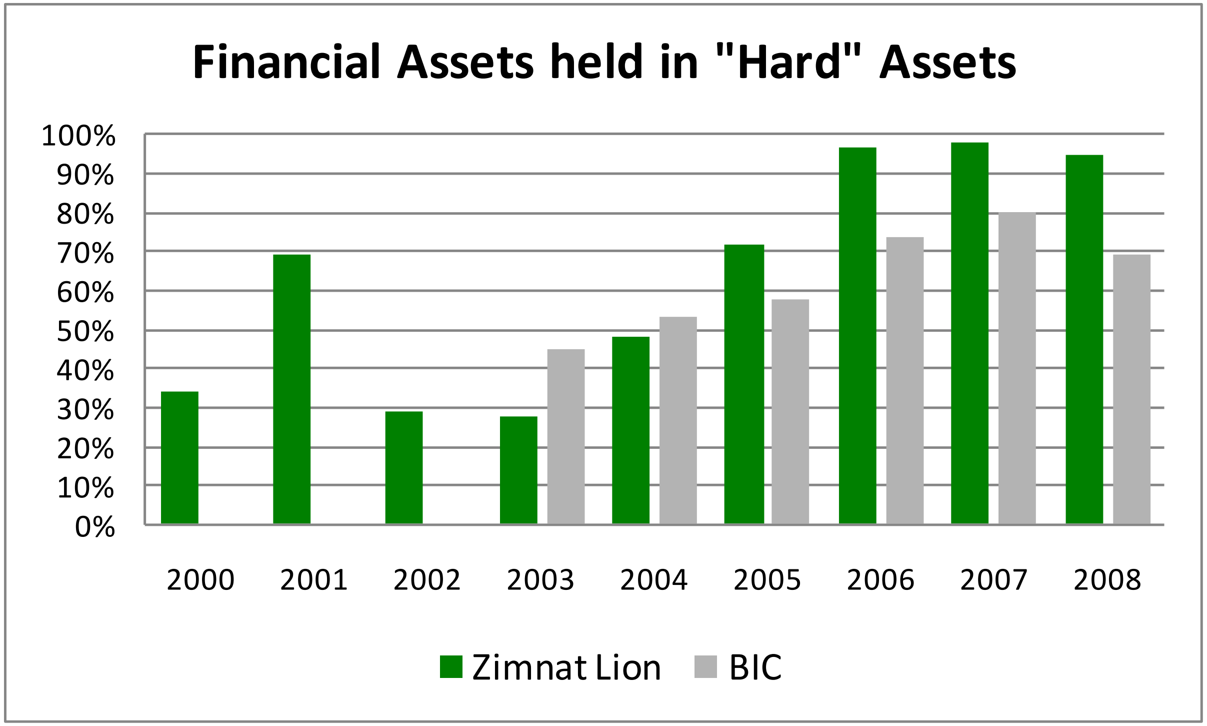


Source: IMF

Crystallized Investment Thesis



Changing Property and Casualty Asset Allocation in Zimbabwe and Botswana



Source: Zimnat Lion and BIC annual reports

Companies With Least Taxed Forex Performed Best

Company	Industry	CAGR '00 - '08	CAGR '00 - '09	CAGR '00 - Current
Ex-Zim Diversified				
Seedco	Agriculture	-71.4%	31.0%	28.3%
TA Holdings	Hotels and Insurance	**-15.0%**	**34.2%**	**19.8%**
Banc ABC	Banking	-44.8%	6.9%	8.8%
Innscor Africa	Diversified Conglomerate	-21.3%	21.2%	16.7%
	Average	***-38.1%***	***23.3%***	***18.4%***
"Free" Exporters				
Zimplats	Platinum Mining	***40.4%***	***42.4%***	***40.6%***
"Controlled" Exporters				
Hippo Valley	Sugar	-78.0%	17.3%	17.6%
Aico	Agriculture	-46.1%	17.3%	17.6%
Riozim	Gold Mining % Nickel	-71.0%	18.7%	13.7%
Colcom	Meat Processor	-43.4%	20.9%	23.5%
	Average	***-59.6%***	***18.5%***	***18.1%***
Financial Services				
Banc ABC	Banking	-44.8%	6.9%	8.8%
Barclays	Banking	-60.8%	-8.5%	-9.3%
CBZ Bank	Banking	-49.5%	14.0%	10.1%
Zimre Holdings	Insurance	-48.4%	-2.1%	-2.5%
	Average	***-50.9%***	***2.6%***	***1.8%***
100% Zim assets				
DELTA Beverages	Beverages	-36.5%	12.1%	11.9%
OK Zimbabwe	FMCG Retail	-50.2%	38.1%	37.3%
AFDIS	Distillery	-64.0%	20.9%	15.5%
EDGARS	Clothing Retail	-71.6%	-1.0%	-1.4%
National Foods	Food Processor	-24.0%	47.9%	37.7%
Kingdom Meikles	Hotels and Banking	-78.7%	-4.3%	-4.4%
PG Industries	Hardware Retail	-59.9%	35.2%	19.5%
British-American Tobacco	Tobacco	-65.5%	2.7%	1.4%
Econet Wireless	Telecom	-36.9%	12.4%	11.2%
	Average	***-54.1%***	***18.2%***	***14.3%***

"Free" Forex was king

Source: Zimbabwe Stock Exchange, BARDNET , Anibok

Zimplats – *Investment Idea*

Public Equity

- Zimplats is a PGM producer on the Great Dyke in Zimbabwe with a listing on the ASX(symbol : ZIM AU). JSE listed Impala Platinum (IMP SJ) has an 87% interest in Zimplats. The company has a market cap of US$1.2 billion.
- At US$11.32 per share, Zimplats trades at an EV/4E Reserve oz of US$57/oz against the weighted average of US$193/oz for the platinum industry.
- The EV/4E Resource oz is US$6/oz against US$33/oz for the platinum industry.
- Cash costs per 4E oz are US$325/oz versus the industry average of US$948/oz.
- Zimbabwean PGM mines have depths of 25meters to 30meters from surface. The shallowest mines in South Africa have depths of 100meters whilst the deepest mines can be up to 2,200meters.
- Annual revenues to June10 was US$404 million and net income was US$122 million.
- Compelling investment opportunity that is cheaper than SA based PGM developers.

Shoprite – *Investment Idea*

Public Equity

- Shoprite Holdings is the largest FMCG retailer in Africa with operations in 16 countries across the continent. Operates 1,166 owned and 276 franchise stores.
- Annual revenues to June10 were US$8.8billion with net income of US$301million and CFO (cash flows from operating activities after working capital changes) of US $340million.
- CFO margins are 4%, ROA is 13% and ROE is 38%. (Wal-Mart's CFO margins are 6%, ROA is 9% and ROE is 21%.)
- PE ratio is 24X, EV/CFO is 18x, and dividend yield is 2%.
- Shoprite is listed on the Johannesburg (JSE), Namibia (NSX), and Lusaka (LuSE) exchanges. *Shares on the LuSE trade at a 56% discount to the JSE share price*.
- Shoprite's market capitalization on the LuSE is US$3.5 billion. LuSE shares offer Shoprite at an EV/CFO ratio of 7x, PE ratio of 9X, and dividend yield of 5%.

Geographical Spread

Sonatel – *Investment Idea*

Public Equity

- 2nd most profitable telecom company in Africa. EBITDA margin of 56%, Net Margin of 31% and ROE of 38%.
- Current market cap is US$2.9 billion: P/E is 8.3x, 8.8% dividend yield, and estimated 2010 P/E 7.8X.
- EBITDA expected to reach US$700 million in 2010, an 67% increase from 2005 and a 309% increase from 2000.
- Strong balance sheet with low debt level.
- Total subscribers reached 10.1 million in June 2010, a 645% increase from 2004 and a 2258% increase from 2000.
- 42% France Telecom ownership, high dividend payout ratio.

Lessons

- **Africa is a legitimate theater of predictable and profitable investment.**
  - There are rapidly growing companies in modernizing parts of Africa available at classic value criteria.

- **Government paper is riskier than private paper.**
  - African equities have proved more reliable than government promises.
  - Zimbabwean foreign exchange earning equities differentially preserved wealth.

- **The withdrawal of African states from commerce has created value.**
  - When state-owned enterprises get into the hands of capable private operators they are often very profitable.

- **Macro-time is much slower than micro-time.**
  - Our timing on Zimbabwe's hyper-inflation logic to play out was off by a few years.
  - Eventually it happened and the market rewarded TA for the foresight.

Other Portfolio Investments

sonatel

COPPERBELT energy

PA RESOURCES

AFRICAN BANK

SAPH

MARINE SUBSEA AS

Unilever

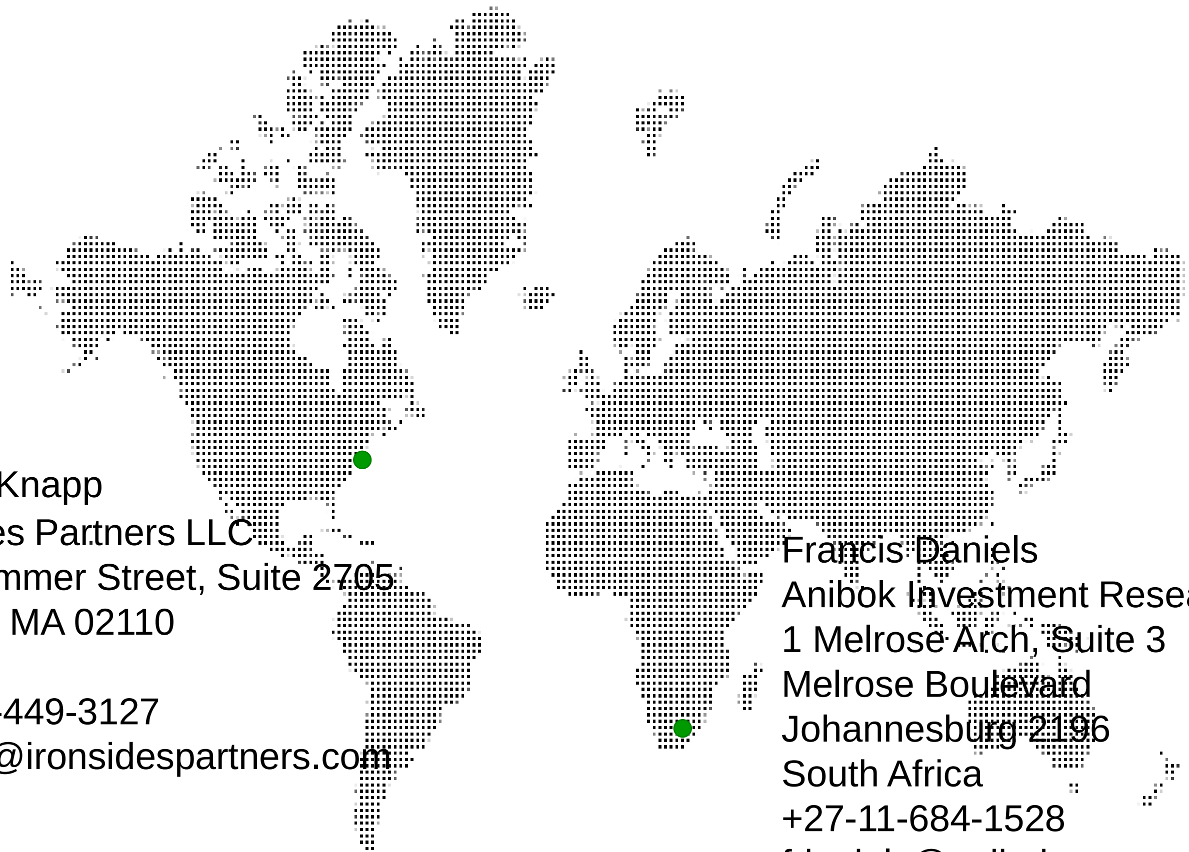
ZIMPLATS
Member of the Implats Group

OLD MUTUAL
INSURANCE • INVESTMENT • SAVINGS • BANKING

SHOPRITE

DIAMONDCORP PLC

CONTACT INFORMATION



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