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Lead Left Interview – Gavin Vorwerg (Part 2)

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This week we continue our conversation with Gavin Vorwerg, Director at Laurium Capital. Laurium is a hedge fund dedicated to investments in Africa.

The Lead Left: *What's your return target?*

Gavin Vorwerg: We have a target of 15% per annum over three years. Since inception in 2008 we've delivered 16%. That's beating the benchmarks by 4-7%.

TLL: *What kind of industries are you focused on?*

GV: Africa has much to offer in the infrastructure sector, such as production of cement. Also, mining and energy. Other areas are telco, consumer, and financial services. There's a big infrastructure gap in Nigeria with major needs in power and water distribution.

TLL: *Can Nigeria afford to spend the money?*

GV: Nigeria has a low debt-to-GDP ratio which leaves room for infrastructure investments. They're showing a 10% CAGR in cement alone. The growth curve is steep in the early years, then flattens out. But producers have pricing and margin leverage.

TLL: *How about consumer trends in Africa?*

GV: There's a trend towards urbanization with 2-4% annual population growth. In sub-Saharan Africa, 50% of the population is less than 20 years old! People are moving into the cities. Basic technologies are coming to subsistence farming with 5-10-fold increases in productivity.

TLL: *Urbanization must be great for consumer demand. Things like cell phones.*

GV: Ten years ago 2-3% of the population had phones; today, penetration is 70-80%. In some rural areas, you just couldn't communicate. Now mobile services are big, particularly MobileMoney.

TLL: *What's that?*

GV: Only a small proportion of the African population has a bank account. Safaricom and MobileMoney have taken over Kenya's money flows. That's changed the velocity of money through the system. Cash is credited to your mobile phone account and you can pay anyone, even a street vendor, with your phone.

TLL*: How about global food manufacturers? Are they paying attention to Africa?*

GV: Of all the markets that Nestle covers, they believe Nigeria has the potential to be one of the fastest growing. You can't sell chocolate or ice cream there because electricity is spotty or non-existent. Nigeria could introduce all sorts of basic consumer goods – like confectionery or ice cream – as infrastructure gets built.

TLL: *But Africa seems like a crap shoot when it comes to political risk.*

GV: It's certainly one of the biggest risks we face. Overall, it's diminishing. The frequency of civil wars has declined. Multi-party democracy is on the rise. One of the problems has been that one-party governments are founded by war heroes who never leave. Mugabe in Zimbabwe, for example. Even the ANC in South Africa is effectively a one-party system.

TLL: *Will the political risk offset the gains?*

GV: It's not as bad as the headlines. When you sit down with companies on the ground, it's more stable. Democracy is improving, the middle class is rising, assisted by technology such as cell phones. People are less in the dark. Besides, volatility also brings opportunities. There can be big dislocations which we can take advantage of. For example, there are often massive flow-driven moves in stock prices around election times.

TLL: *Gavin, what's been your biggest surprise this year?*

GV: Oil prices falling! We weren't positioned well initially. We were long companies that were hurting and short consumer companies that were benefitting. I'm also surprised how poorly commodities have performed. Africa sits between big demand – China – and big suppliers – the West. Iron ore from Sierra Leone, Guinea, and Liberia should have been a big money-maker. But people were too busy fighting for a slice of the pie; now the pie has disappeared. Governments should have moved quicker.

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