MOVE OVER LONDON AND NEW YORK

As China eases restrictions on foreign investment, African companies may list in Shanghai. But can anyone figure them out, asks **Samuel Passow**

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China wants to make Shanghai an international financial centre on a par with London and New York by 2020. With 700,000 new accounts opening every week this past summer, the Shanghai exchange is now the world's second largest exchange on most measures. Individual trading accounts for about three-quarters of all share purchases in China.

To date, 54 African companies from 14 countries list on either the London (32) or New York (22) stock exchanges, while four of them raise money on both exchanges simultaneously. Of these firms, 21 are in metals and mining, nine in banking and financial services, seven in construction and building materials and four in telecoms.

While it will certainly be a few years before China undergoes the necessary regulatory changes regarding capital controls and the convertibility of its currency to make the transition from a purely domestic equity market to an international trading platform that African firms can trade on, China is nevertheless, already starting to ease restrictions on Chinese state-owned banks and private investors placing their money abroad. Not only will this create Chinese buyers, but it is already luring African sellers.

"Given what has happened in the world financial markets in the last year, interest from Western financial firms has receded," says David Adomakoh, Group Managing Director of the South African-based Tiso Group. "The guys who will be first back are the Chinese."

What does China want?

Established eight years ago, Tiso has grown to become one of the most successful boutique firms of black players in the South African financial industry with a net asset value estimated at about the ZAR 3 billion (US $412 million) mark. It now plans to expand its operations to other countries in west Africa. Its institutional investors include Investec, Standard Bank and Rand Merchant Bank. Companies like Tiso are potentially attractive to the Chinese because of their exposure to the mining sector through a stake in South African coal giant Exxaro (which also has operations in Namibia, Australia and China) and the lime and industrial minerals producer, Idwala. In construction, Tiso has teamed up with the Dutch firm Interbeton in a joint venture with a stake in Grinaker-LTA, South Africa's largest construction group, which, among other major projects, is refurbishing three of the main stadiums that will be used in the 2010 World Cup games.

"We are looking at different levels of potential involvement with China, such as co-equity partnerships and on what level one can tap into debt," says Adomakoh. "We don't understand China yet on the way they operate and what drivers motivate them. Is Chinese capital any different from the capital we have become used to from the West, in other words, just chasing returns, or are there other specific requirements for investment?

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"We hear a lot of stories about China, but until we understand how they work, we are stuck in kind of a goldfish bowl. I don't think the Chinese are return-oriented, I think they are looking for a strategic imperative as part of a broad strategy. For example, they could be a passive investor in a mine, as long as they can secure their off-takings," he said.

Adomakoh was travelling to China with his executive chairman, Nkululeko Sowazi, who said: "In our talks with sovereign fund entities, they favour participation; the real question is whether the state-owned banks behave differently from the sovereign funds. We have met people who are in state-owned enterprises but speak the commercial language of the private sector, but we need to know if that is the same thing as dealing with the private sector, but time will tell.

As for sectors, Adomakoh says that while the Chinese are interested in real estate, natural resources are clearly their main objective, adding: "From my conversations in Dalian, I also see wider interest in several infrastructure projects."

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The executives at Tiso are not alone in wondering what China's real motives are as they begin to exert their financial muscle around the world. Perceptions vary like the swing of a pendulum. On one side you have executives such as Doyin Adeyinka, Managing Director and CEO of Nigerian petroleum firm Acorn, who contend that "Money doesn't know colour. They understand us better than Western portfolio managers. Their expectations are more aligned with us."

At the other end, a note of extreme caution from Pius P Mulipa, Group Operations Executive, from Malawi-based Press Corporation Ltd. "There is interest in Africa here in China, but they operate on a different formula. One gets the impression that they are going for control in foreign companies, they are not interested in playing second fiddle."

Qualified Domestic Institutional Investors

China had licensed 58 Qualified Domestic Institutional Investors (QDII) at its last measure in August 2009. These QDIIs started QDII in 2006 and have been granted US $59.951 billion for investment out of mainland China. Twelve funds and securities companies obtain $33.565bn portion of the total amount.

Up until now, a total of $28.711 billion has been transferred, which includes $14.495 billion supplied by the 12 institutions in the field of share trading.

State Administration of Foreign Exchange (SAFE) has issued Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions to clarify the issues of application, amount, management etc.

All QDIIs are only allowed to invest in securities products simultaneously identified by China Securities Regulatory Commission. According to statistics from SAFE, three-quarters of China's 2 trillion-dollar foreign exchange is comprised of foreign currencies and the QDII system is intended to increase the proportion of non-state holding of overseas financial assets.

Craig Bond, Beijing-based chief executive of the partnership between Standard Bank China and Industrial Bank of China, talked to Samuel Passow at the World Economic Forum, where he spoke on the future of financial services in China

Q Do you think Chinese institutional investors and institutional fund managers will invest in African companies? If they are willing to invest, what do you think are the likely targets?

Yes, but they will be cautious and invest in safe markets like South Africa in blue-chip stocks such as high potential resources, energy and telecoms companies and later possibly bank and other service industry stocks. Volumes will start out small until a good track record of better than average returns has been demonstrated.

The top candidates are mining, oil and gas companies; telecoms and infrastructure provision companies and a little later key leading banks and financials.

Q Is there a financial limit as to how much a Chinese investor can invest in an African company? Do Chinese investors take their cues from official political policy or business rationale?

Theoretically no, but this will depend on the country, the industry and whether it is in a strategic or non-strategic sector, all of which may place limitations on percentage of shareholdings. I believe that most of these investment decisions will be politically motivated or have a strong national strategic linkage, but increasingly most of them will also need to be motivated by a strong commercial/business rationale.

Seldom in the post-financial crisis do I believe we'll see major Chinese investments that are passive unless they are into strategic industries or assets such as oil and gas or resources companies.

Q Do you think Chinese investors have enough information on African companies?

No, Chinese investors are wary of Africa and relatively uninformed, but this will change fast and already we see Chinese companies accessing good African research ,visiting and viewing investment opportunities and projects on the ground . So while this lack of information and understanding of the African operating environment is a very real barrier to investing, a number of Chinese companies and state-owned-enterprises have struck up good African partnerships and increasingly call on good African advisors with on-the-ground presence and skills to assist in making their investment decisions.

Q Will African companies find it easier to list on the Shanghai Stock Exchange than in London or New York?

I don't think African companies will be flooding the Shanghai IPO market in the near term, nor do I believe Chinese investor appetite is ready to provide strong support for African investment opportunities. But I do think a few attractive natural resource (mining, oil and gas), financial institutions, and possibly telecoms, brewing and logistics counters may kick start an interest in African investment opportunities on the mainland.

I can't comment based on any regulatory insights we have, but I have no doubt that there is a growing interest from African and emerging market companies looking to source Chinese capital and equally, a growing interest from within China to benefit from the inevitable rise in commodity prices as well as stocks that will benefit from the growing African middle classes spend and purchasing patterns, so regulatory changes there will be.

Q Do you recommend that African companies use Chinese brokers, or should they continue to use established Western firms?

My strong recommendation based on personal experience is that a combination of the best of the West and the best of local brokers reduces one's risk. International practice and research skills coupled with local knowledge will continue to be crucial for a few years in China.