INVESTING IN AFRICA *With Ryan Shen-Hoover*

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This Month's Feature:
Gamma Civic

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Dear Reader,

I've been preoccupied with risk these days. Or risk mitigation to be exact. I'm tired of watching my TDAmeritrade account get whipsawed. It's got me thinking. Would a portfolio invested solely in African markets be a tragedy waiting to happen?

The chart below shows the correlations (or lack thereof) between the dollar-adjusted monthly returns of 10 African local stock indexes over the past 16 months. This is a relatively short timeframe, but I think it's sufficient to get an idea of some of the relationships between the countries that we cover in this newsletter.

	BOT	GHA	KEN	MAL	MAU	NAM	NIG	SA	UG	ZAM	S&P	EEM
BOT		0.23	-0.12	0.59	0.02	0.15	0.35	0.12	-0.15	0.33	0.09	0.13
GHA	0.23		0.26	-0.44	-0.45	-0.16	-0.53	-0.05	0.42	-0.43	0.15	-0.08
KEN	-0.12	0.26		0.07	-0.05	-0.11	0.13	0.08	0.73	-0.17	0.08	0.07
MAL	0.59	-0.44	0.07		-0.22	-0.03	0.27	0.10	0.10	0.32	0.40	0.10
MAU	0.02	-0.45	-0.05	-0.22		0.39	0.61	-0.02	-0.21	-0.11	-0.34	0.05
NAM	0.15	-0.16	-0.11	-0.03	0.39		-0.11	0.76	-0.18	-0.11	0.54	0.80
NIG	0.35	-0.53	0.13	0.27	0.61	-0.11		-0.16	-0.03	0.23	-0.26	-0.21
SA	0.12	-0.05	0.08	0.10	-0.02	0.76	-0.16		-0.15	-0.22	0.75	0.88
UG	-0.15	0.42	0.73	0.10	-0.21	-0.18	-0.03	-0.15		-0.07	0.17	-0.17
ZAM	0.33	-0.43	-0.17	0.32	-0.11	-0.11	0.23	-0.22	-0.07		-0.03	0.01
S&P	0.09	0.15	0.08	0.40	-0.34	0.54	-0.26	0.75	0.17	-0.03		0.76
EEM	0.13	-0.08	0.07	0.10	0.05	0.80	-0.21	0.88	-0.17	0.01	0.76	

Unsurprisingly, the strongest positive correlation we see is between the Johannesburg Stock Exchange (SA) and the Emerging Market Index (EEM). South Africa is a full-fledged emerging market. It is large and liquid, making it a favorite of funds desirous of exposure to the continent. But this also means it is likely to be hit first and worst in the event of a global economic downturn.

The next strongest correlation is that between South Africa and Namibia. The neighboring countries share a customs union, a currency linkage, and a lot of history. Thus their stock indexes move in a concerted fashion. Similarly, the markets of Kenya and Uganda exhibit a strong relationship. Investors from both countries can easily invest in one another's markets. And landlocked Uganda is almost entirely dependent on trade routes through Kenya. Thus, Kenya's political crisis early this year hurt the Ugandan index more than the Nairobi Stock Exchange itself!

Apart from that, however, the chart is striking for its lack of strong correlations between African exchanges. Each country index seems to pretty much do its own thing.

So, let's get back to the original question. Would a portfolio consisting of equal allocations to each of these 10 African markets be exposed to unacceptable levels of risk? To find out, I back-tested such a portfolio and compared it to the S&P500 and EEM using the most recent 16 months of returns.

The S&P500 returned an average of –0.04% per month with a 3.42% standard deviation. The EEM posted better returns of 1.71% but was more volatile with a 6.31% standard deviation. Our Africa portfolio returned 2.90% with a 2.36% deviation. Better returns and less volatility. Could Africa be an investor's safest and most rewarding bet?

Ryan Shen-Hoover

GAMMA CIVIC

Recent Share Price
MUR88.00 (US$3.34)

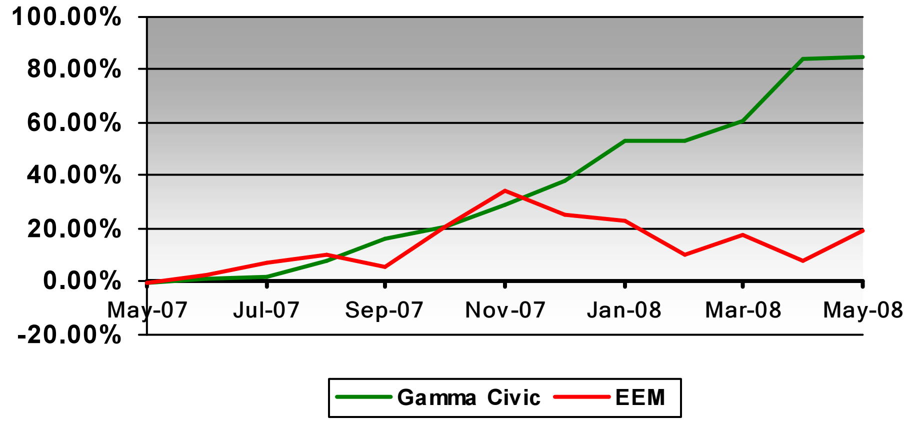
COMPANY PROFILE

Reuters Ticker: GAMA.MZ
Market Cap (m): US$33.6
P/E Ratio: 15.2
Dividend Yield: 3.4%
Return on Equity: 10.9%
Return on Assets: 3.2%

- Operating in Mauritius' hot construction sector, Gamma should see rapid gains in contract revenue over the next several years.

- Its stakes in Mauritius Hilton and cement giant, Holcim Mauritius, make it look undervalued on an asset basis.

Cumulative Performance of Gamma Civic vs. Emerging Markets Index
(in constant US$ terms)



I've given Mauritius short shrift. In the past 26 issues of this newsletter, I've only covered one company from that island paradise. With that sort of ratio, you'd think it was a terrible place to invest.

But that is far from the case. The World Bank ranks Mauritius as the easiest place to do business in all of Africa. In fact it ranks right up there with Austria, Israel, and Puerto Rico, and surpasses its former colonizer, France. Its regulations provide lots of protection to investors. It has few taxes (15% corporate tax rate and no duty on imports of raw materials). And you'll find few other places in the world where it's easier to start a business. Elections are regular, free, and fair, human rights are respected, and corruption is relatively low.

That's a nice recipe for sustainable economic growth. And grow it has. Mauritius' GDP has grown at an average rate of 4.9% since the end of 1999. Inflation has fallen to 8.7% from 10.7% last year. And the central bank has just cut the interest rate 50 basis points to 8.5%.

The island's boom disproportionately benefits the construction and materials industry. And when you're talking construction in Mauritius, you're most likely talking about Gamma Civic.

The Business

Founded in 1961, Gamma started out as a stone-crushing business. Since then it has grown into the island's only vertically integrated construction firm. From cement production to construction to property development, the company reshapes the Mauritian skyline.

The company builds lots of resorts, office blocks, warehouses and roads. But it's also involved in two projects that have the country's media buzzing.

The first is a controversial waste-to-energy and compost project that involves the construction of a garbage incinerator. Nearby residents voiced strong opposition to the project due to the risk of toxic pollutants. But after 18-months of study and dialogue, the government recently approved the proposed plant's environmental impact assessment, and construction is due to begin shortly.

When complete, the $200 million project will convert 300,000 tons of the island's garbage per year into 20MW of electricity. That's roughly equivalent to 6% of Mauritius' total energy demand that would otherwise need to be met through gas or diesel-burning power plants. The project has the potential to generate significant revenue for Gamma. As a project promoter, the company will receive "tipping fees" from the government for each ton of waste that the incinerator disposes of. And it will also be paid an as yet undetermined rate for each megawatt of power that it produces. It's hard not to like a project that pays at both ends!

Gamma will also build the country's tallest skyscraper in the growing "cyber-city," Ebene. The 24-story office building is estimated to cost $80 million.

Property development is one of Gamma's more recent activities. In late March, the company announced that it had begun negotiations with a South African company to develop a resort on 180 acres of Gamma-owned land.

It also boasts a 25% shareholding in Morning Light Company Ltd. Morning Light, a publicly traded company, owns the five-star Mauritius Hilton Resort. The company has thrived of late along with the rest of the country's tourist industry.

Finally, I must make note of Gamma's 17.8% position in Holcim Mauritius, a regional cement powerhouse with controlling interests in a number of cement companies, including Tanzania's Tanga Cement and India's Ambuja Cement.

The Numbers

Let me point out right off the bat that Gamma's financials aren't nearly as pretty as many of the other companies we've looked at. It is no standout when it comes to returns on invested capital. A 10.9% ROE and 3.2% ROA are nothing to get real excited about. Margins are low. Cash flow is negative. And the liquidity situation leaves much to be desired.

But hitched as it is to Mauritius' construction sector, I see it as having big income growth potential. It's already showing signs of this. Gamma's interim financial statement shows pre-tax earnings nearly doubled over last year on the back of 24% revenue growth.

Historically, the sale of building materials and equipment accounts for approximately 75% of the company's operating profit. The remainder stems from contracting fees.

The building materials' income has been fairly consistent over the years in spite of price controls on cement. Contracting income, however, is lumpy because construction projects are not governed according to the fiscal year. Earnings lag during the pre-engineering stage of most projects. For example, Gamma's net income declined 11% during FY2007 because of costs (MUR32 million) associated with the proposed waste-to-energy project. But you can bet these costs will be more than covered as the incinerator moves forward.

Unfortunately, Gamma does not publish information regarding its project backlog. But we can get a sense of how much contract-related revenue will eventually reach the income statement by looking at the note regarding construction contracts in the company's annual report. As of December 31, 2007, Gamma had yet to bill its clients for MUR224 million worth of construction-related costs. That's five times higher than the year-ago period.

It's important to note, too, that earnings from the company's associates, Holcim (Mauritius) and Morning Light, accounted for 44% of pre-tax profits during the first half of FY2008.

The Risks

As previously noted, prospective investors must prepare themselves for uneven earnings growth due to the nature of the construction industry. But with the Mauritian economy exhibiting solid growth and interest rates on the decline, the long-term trend should be strongly positive.

Then there's our old friend illiquidity. Gamma is a very closely held company. In 2007, only 4% of the stock's total shares traded hands. Retail investors should not have too much trouble picking up some shares. It's unlikely, however, that a fund will be able to establish a meaningful position. In April, the largest daily turnover was 19,700 shares – or $65,000 dollars worth. Sometimes, it's nice to be a small investor!

Gamma's financials aren't nearly as pretty as other companies we've covered, but hitched as it is to Mauritius' construction sector, earnings growth is coming.

Why is the float so small? It's because Gamma is another one of those family-owned businesses. Managing Director Tommy Ah Teck and his extended family own 38% of the company. Add in the stakes of other Board members and the total insider ownership increases to 62%. Institutions also control a big chunk.

Another risk to profits is the rising price of cement. Cement pricing is controlled by the state in Mauritius, and its tariff on the material has not kept pace with global cement prices. This puts Gamma associate, Holcim, in a bind, because they must essentially operate at a loss. Intense lobbying, however, may result in the cement market being liberalized eventually.

Valuation

In terms of earnings multiples, Gamma is one of the more expensive companies we've covered. It currently trades at a PE ratio of 15.2. Its book value per share is at a more modest 1.6.

Let's take a look at Gamma's assets. We can sharpen our sense of the company's value by unbundling its stake in Morning Light Ltd. Morning Light's market cap stands at MUR1.9 billion (which is probably a bit less than it's worth). If we divide that figure by four to get the value of Gamma's portion, we end up with about MUR480 million.

And, just for kicks, let's back out its effective 11% stake in Tanga Cement. That stake is worth approximately MUR260 million at today's (undervalued) price.

At this time, Gamma's market cap is MUR887 million. So, in effect, Gamma's domestic materials, construction, and property development business is now for sale at MUR147 million ($5.6 million).

Make note, because Holcim Mauritius is not public, I have no idea what sort of liabilities it carries on its balance sheet, so we should be careful when valuing Gamma's stake. But even if we value it at zero, I don't think it's too big a stretch to say Gamma is way inside bargain territory.

Conclusion

Gamma operates in a cyclical industry, but judging by the number of big new building projects on the horizon, I think Mauritius' construction sector is still on the upswing. Combine that profit potential with what appears to be undervalued assets, and I think we have a winner.

Ryan intends to purchase shares of Gamma-Civic in May after opening a brokerage account with Capital Markets Brokers in Mauritius. www.cmb.mu

GAMMA CIVIC

Key Financials (MUR 000'000s)

Income Statement

	FY 2005	FY 2006	FY 2007	H1 2008
Revenue	1,306	1,560	1,759	965
Operating Profit	106	130	89	68
Net Income	55	73	61	48
Earnings per Share	5.07	6.68	4.56	3.57

Key Margins

	FY 2005	FY 2006	FY 2007	H1 2008
Operating Margin	8.1%	8.3%	5.1%	7.0%
Net Margin	4.2%	4.7%	3.5%	5.0%

Balance Sheet

	FY 2005	FY 2006	FY 2007	H1 2008
Cash and Equivalents	2	56	4	-
Accounts Receivable	440	400	713	-
Total Current Assets	583	625	915	1,131
Total Assets	1,442	1,710	2,016	2,388
Accounts Payable	401	419	593	-
Total Current Liabilities	571	570	888	1,230
Long-term Debt	277	301	288	-
Shareholders' Equity	402	657	688	709

Cash Flow Statement

	FY 2005	FY 2006	FY 2007	H1 2008
Net Cash from Operations	115	152	-96	-132

Key Statistics

	FY 2005	FY 2006	FY 2007	H1 2008
Dividends per Share	2.50	2.75	3.00	1.50
Payout Ratio	49.3%	41.2%	65.8%	42.0%
Return on Equity (ROE)	14.2%	13.8%	9.1%	10.9%
Return on Assets (ROA)	4.3%	4.6%	3.3%	3.2%
Quick Ratio	.78	.80	.81	-

INVESTOR'S LOG

April 29, 2008

I plan to open an account with Capital Markets Brokers in Mauritius. Check out www.cmb.mu to get a jump on me.

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April 4, 2008

It has been three days since Rosi at Stockbrokers Botswana acknowledged my request to purchase shares of Botswana Insurance Holdings. I haven't yet received a trade confirmation, so I send her a message (and cc Stockbrokers Botswana's CEO, Geoffrey Bakwena) inquiring whether the deal has yet gone through. I know the Botswana Stock Exchange relocated across town yesterday, and was therefore temporarily closed. Still, I would think two trading days was sufficient to get shares of a fairly liquid position like Botswana Insurance.

April 14, 2008
I've heard zilch from Rosi or Geoffrey, so I send another message asking whether the deal has been done.

April 15, 2008
Rosi sends me a trade confirmation showing that the deal was executed today. It turns out that SBB's unexplained delay in making the trade benefited me as the Botswana Insurance share price slipped a tad since the day I had placed the order. But it irritates me that the deal was not executed until I sent the second reminder.

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April 3, 2008
In spite of being unimpressed by the response time of Trust Securities, I still want to purchase shares of Malawi Property Investment Company (MPICO), which now trade at just MWK4.00 per stub. So, I wire the funds to the SWIFT code and account number that Davis Manyenje had forwarded to me a week ago. I request that they invest the entire amount in MPICO.

April 4, 2008
Davis confirms receipt of the funds and says that they will attempt to execute the trade on Monday, April 7. I thank him and ask him to ensure that the MPICO share certificates remain in his custody, not mailed to me.

April 10, 2008
No trade confirmation has come through, so I ask Davis if the shares have been purchased. He replies the same day that they have been and promises to send a trade confirmation.

April 14, 2008
Davis forwards me the trade confirmation. The deal was apparently executed on April 10. Like in Botswana, it appears that my trades only get executed after repeated queries from me.

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April 28, 2008
My email inbox holds a message from Bruce Hansen at Namibia's Simonis Storm Securities. He's wondering if I still plan to open a brokerage account with them and wondering if there's any way he might assist. Very refreshing customer service! You may recall, that I had put the process of opening a brokerage account with Simonis Storm on hold when I thought it would be possible to open an account through Sterling Gent in the British Virgin Islands. So, it's time to re-start what I hope will not be my quixotic attempt to purchase shares of Namibia Breweries. I tell Bruce that I will start filling out my account application asap.

April 29, 2008
I fill out the Simonis Storm application. It's pretty simple and the most sensitive info it requires is your passport number. But it does require a few notarized items, which I always find annoying. Simonis needs notarized copies of your passport, a recent bank statement, and a utility bill. I'm busy. So those will have to wait until next month.

REAL MONEY PORTFOLIO

Trade Date	Company	Gross Return ($ adjusted)	MSCI EEM Rtn
April 15, 2008	Botswana Insurance	-13.1%	4.3%
April 10, 2008	MPICO	3.2%	3.5%
March 27, 2008	Truworths	6.9%	9.6%
January 29, 2008	CAL Bank	22.7%	9.4%
November 9, 2007	SAB&T Ubuntu	-2.7%	-5.0%
October 10, 2007	Imara Holdings	12.8%	-7.2%
September 26, 2007	Ghana Oil	23.3%	-1.0%
August 14, 2007	Ghana Comm. Bank	54.6%	16.9%
June 27, 2007	Onelogix	-16.5%	11.8%
May 16, 2007	Fan Milk	54.6%	15.8%
Total Average Return		**14.6%**	**5.8%**

Note: A more representative portfolio tracker is in the works.

CHECKUP: FMB MALAWI

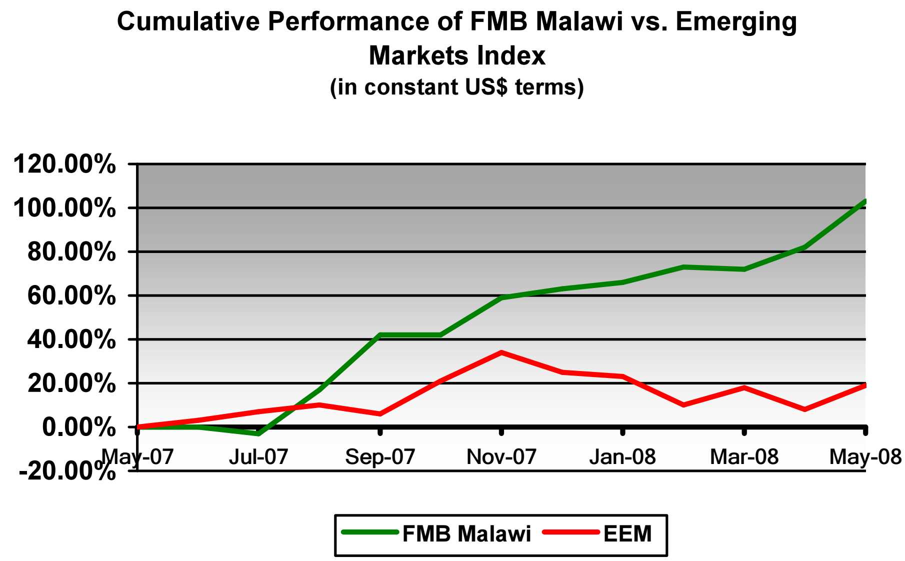
Recent Share Price
MWK10.00 (US$0.07)

COMPANY PROFILE

Reuters Ticker: -
Market Cap (m): US$156.4
P/E Ratio: 11.1
Dividend Yield: 2.3%
Return on Equity: 53.3%
Return on Assets: 10.0%

- Outstanding performance from the investment portfolio resulted in 73% earnings growth during FY2007.

- The bank's new Botswana venture, Capital Bank, launched last month.



I'm increasingly bullish on Malawi. The government has implemented significant economic reforms that have led to the cancellation of $2 billion worth of foreign debt since September 2006. This has allowed for increased sums to be spent on infrastructure and other development efforts. Now, economic growth is humming along above the 7% mark while inflation has fallen dramatically from 13.9% a year ago to less than 8% today.

New Developments

The sunny outlook has done wonders for business at First Merchant Bank. Per share earnings increased 73% during FY2007. Net interest income increased 33% thanks to a decrease; let me emphasize that - a *decrease* in interest charges. That means the bank found much cheaper funding in the form of customer deposits, which shot up by 51% during the year. I calculate the current cost of funding to be about 4.3% - down from 6.3% one year ago.

Declining treasury yields, however, caused the net interest margin to contract from 16% last year to 13% today. Even so, 13% is a nice figure.

But interest rates can rise and fall. So I was happy to see that fee and commission income grew 44% during the year. This trend will reduce the bank's interest rate risk if it can be sustained. Foreign exchange earnings were up a relatively low 19% in part because of currency shortages.

Cost control continues to be one of FMB's strengths. The cost-to-income ratio dropped from .42 to .37 in 2007 in spite of a big severance charge.

It's an impressive result for sure. Unfortunately, the 73% earnings growth rate is a bit deceiving. FMB's investment portfolio had a great year, and investment income more than doubled. So, while operating income climbed 70%, net interest income increased by a more modest 33%.

The bank increased its lending portfolio by over a third in FY2007, but there's cash on hand to grow it much more quickly. It only lends out half of the total deposits at its disposal. I'd like to see them try to grow the loan book at little more aggressively.

Its subsidiary, Leasing and Finance Company of Malawi, appears to have had a good year. Finance leases now account for 22% of FMB's lending compared to 18% last year.

FMB's ambitions are not limited to Malawi. This year it launched its Botswana subsidiary, Capital Bank, Ltd. The first branch opened in Gaborone last month, and it plans to open a second branch before year-end.

It will offer the full range of banking services to small and medium size enterprises, its target clients. Mobile technology will be key to its marketing effort. I'm guessing that will be a nice selling point to companies operating across Botswana's diffuse population centers.

Capital Bank won't contribute significantly to earnings figures until at least FY2009. But the company thinks it has a good shot of gaining significant market share in the country.

To do so, they will need to deliver service superior to that of the six commercial banks already doing business in Gaborone. Competition has picked up considerably in recent years, but Botswana's banks are still posting nice profits. With a growing population of roughly 220,000, I'm guessing that there's enough room for a new entrant to the market.

Risks

There's little doubt that the investment portfolio will have a tough time matching this past year's results. And expenses will be impacted by Capital Bank's start-up costs. So, earnings per share will likely not grow anywhere close to 73% in FY2008. Then again, the bank's earnings surprised me this year. Perhaps it will happen again.

FMB remains quite closely held by insiders, so it may be difficult for larger investors to grab a meaningful position in the company. But share liquidity improved dramatically in 2007. Its transaction volume on the Malawi Stock Exchange is now second only to recently listed MPICO.

Valuation

FMB is a more expensive bank this year than when we first looked at it one year ago. At the time it sported a PE ratio of 9.0 and a price to book of 3.5. Now these numbers stand at 11.1 and 4.8 respectively.

But that doesn't mean it's pricey. Consider the generally favorable macroeconomic environment and the bank's past record of earnings growth; this stock could be trading at significantly higher multiples.

FMB's Malawian competitors trade at similar valuations. But its Botswanan counterparts enjoy PE ratio that range from 15 to 20.

Management upped its dividend payout by 28% this year. The shares currently carry a yield of 2.3%.

Conclusion

I'm a very content holder of FMB in our paper portfolio at current prices. A strong economy, solid fundamentals, regional growth prospects, and a relatively modest price add up to a pretty nice stock.

Ryan does not own shares of FMB Malawi.

Key Financials (MWK 000'000s)

Income Statement

	FY 2005	FY 2006	FY 2007	% change (1 y.)
Interest Income	1,151	1,613	1,972	22.3%
Interest Charges	365	501	494	-1.4%
Net Interest Income	787	1,112	1,478	32.9%
Operating Income	722	1,366	2,315	69.5%
Net Income	610	1,107	1,993	80.0%
Earnings per Share	.31	.52	.90	73.1%
Net Interest Margin	-	16%	13%	-

Balance Sheet

	FY 2005	FY 2006	FY 2007	% change (1 y.)
Cash and Equivalents	3,261	3,657	4,783	30.8%
Loans to Customers	2,553	4,326	5,826	34.7%
Total Assets	9,033	13,278	19,899	49.9%
Deposits	6,822	9,186	13,888	51.2%
Shareholders' Equity	1,525	2,859	4,622	61.7%

Cash Flow Statement

	FY 2005	FY 2006	FY 2007	% change (1 y.)
Net Cash from Operations	92	1,489	3,393	127.9%
Capital Expenditures	204	157	229	45.9%

Key Statistics

	FY 2005	FY 2006	FY 2007	% change (1 y.)
Dividends per Share	.09	.18	.23	27.8%
Payout Ratio	29.0%	34.6%	25.6%	-
Return on Equity (ROE)	40.0%	50.5%	53.3%	-
Return on Assets (ROA)	6.8%	8.3%	10.0%	-

Company Updates

The Malawi Property Investment Company (MPICO) reported its FY2007 results in early April. Pre-tax income soared 36.5%. But it's important to note that the bulk of this growth stemmed from a massive upward revision (34%) in the estimated fair value of its properties.

This level of price appreciation, which management says results from increased demand for office space, exceeds the estimates contained in the company's prospectus. The prospectus, released just seven short months ago, predicted property values to increase only 25%.

So, an obvious question is whether we should accept this estimate as reasonable. With Malawi's GDP growth currently estimated to be above 7%, rapidly appreciating commercial real estate prices would seem likely. So, I'll not quibble. MPICO's website now shows updated valuations for its largest properties. Most show about 15% price appreciation from those shown in the prospectus.

Rental income, a more tangible performance metric, increased 15% thanks in part to an improvement in occupancy rates from 98% to 99% (a level that CEO Gray Nthinda believes is sustainable in the short-term). Rental income growth, too, exceeded the prospectus' forecasts. It should soon approximate the rate of property appreciation.

Management hints that new property investments are on the horizon. This suggests that the company believes that the property boom is in its early stages. We'll need to keep an eye on developments in this regard.

MPICO

Exchange: Malawi
Recent Share Price: MWK4.30
Market Cap: $33.7m
P/E Ratio: 4.8
Dividend Yield: 3.0%

The beer business is good in Namibia. Nambrew increased its headline earnings by nearly 50% during the first half of its 2008 fiscal year thanks to sales growth of 26.5%. Operating earnings surged 36%. The brewer's net profit margin improved to 10.8% from 9% one year ago partly as a result of improved operational efficiencies and lower finance costs.

Sales growth figures indicate that the company captured additional market share in Namibia. It now controls 77% of the domestic beer market.

And it's doing well in neighboring countries, too. It grew its South African revenues by 27%. Management said its Botswana sales were also strong. Angolan sales, however, are still flat.

This company still looks very cheap. It trades at 7 times trailing twelve-month earnings (its average P/E ratio over the past eight years is 12.6). And the company boosted its interim dividend payment by 20%, giving the stock a current yield of about 6%. I hope there are shares available for me at this price.

Namibia Breweries

Exchange: Namibia
Recent Share Price: NAD5.04
Market Cap: $131.8m
P/E Ratio: 7.0
Dividend Yield: 6.0%

We've got big news from SAB&T Ubuntu (SUHL) this month. The business services firm has received a buyout offer from Simeka Business Solutions Group in an all-share transaction. SAB&T Ubuntu shareholders would receive 1 share of Simeka for every 2.1 shares of SUHL that they currently own. At current prices, this equates to about R0.42 per share.

The price strikes me as a bit of a steal for Simeka considering SUHL traded at R0.42 per share at the time of the announcement. That's zero premium and 9x times earnings for a company that recently announced it expects earnings to increase 30% this year.

Moreover, the deal includes a condition that SUHL must grow its headline earnings to R30 million by the end of May 2009. If it fails to do so, Simeka gets to "claw back" 60 million shares from SUHL management.

Growing earnings to R30 million equates to a growth rate of 57%. So, if management is so confident it can achieve this, why not hold out for a higher sale price?

That's not a question that I feel like I've got a good answer to. But I'm reassured to see that Simeka looks similarly undervalued. The company has grown earnings at a 115% rate over the past 2 years and sports a trailing PE ratio of 5.7.

The deal needs the approval of 90% of SUHL shareholders. If it does, SUHL will become part of Simeka as of June 1, ending its 18-month life stint on the Alt-X.

SUHL staff, management, and directors hold about 82% of the company's shares. Thus, I'm guessing the deal will go through without a hitch. But we need to decide if we're happy to become Simeka shareholders or prefer to pursue other opportunities.

Simeka is basically a collection of ICT companies. It derives nearly half of its revenue from the manufacture of prepaid scratch cards and vouchers for a number of telecommunication companies throughout the continent. Another 44% of revenue comes from varied business consulting services, and 10% comes from its IT support division.

SUHL's accounting and tax advisory services do not really overlap with any of Simeka's current product offerings. So, this is largely a bolt-on transaction. Therefore, the main synergy that the deal offers is cross-selling opportunities to one another's clients. Simeka's client base is primarily in the private sector, while SUHL boasts a large number of government contracts.

The group has made a dizzying number of acquisitions and sell-offs in the past 12 months. The acquisitions have led to big increases in goodwill on the balance sheet. This should be expected from a company largely dependent on human resources, but what is troubling is that some of their recent asset sales resulted in portions of goodwill being written off.

Another reason I'm uneasy about the deal is the recent departure of both Simeka's deputy CEO and its COO. This may be merely a coincidence, but it still suggests that integration of the two firms could be rocky. But local analysts report that Simeka's management team is quite deep, and that the culture of the two companies is compatible. SUHL's CEO Bashier Adams will assume the role of Simeka's Deputy CEO if the deal goes through.

Improved liquidity is one of the most promising aspects of the deal. SUHL's free float is quite small, which is one reason institutional investors bypass it. Adding 130 million shares to Simeka's float should result in an increased earnings multiple.

In sum, I would have preferred that SUHL management had tried to unlock a bit more of their company's value instead of selling it at pretty much the market price to another undervalued company. Still, Simeka looks to be a good opportunity in its own right. So, I'll sit back, watch the share swap, and wait to see if the additional liquidity helps the merged firm get more respect from the marketplace.

SAB&T Ubuntu

Exchange: South Africa
Recent Share Price: ZAR0.44
Market Cap: $16.1m
P/E Ratio: 10.6
Dividend Yield: 5.7%

Ryan owns shares of MPICO and SAB&T Ubuntu.

Portfolio Performance

Issue	Company	US$-Indexed Rtn	S&P 500 Rtn	MSCI EEM Rtn
May 2008	Gamma Civic	-	-	-
April 2008	Truworths	8.75%	4.75%	9.14%
March 2008	Botswana Insurance	-25.59%	4.13%	5.04%
February 2008	Namibia Breweries	0.96%	0.51%	7.14%
January 2008	CAL Bank	39.12%	-5.64%	-2.42%
December 2007	MPICO	-28.36%	-6.45%	-4.84%
November 2007	SAB&T Ubuntu	-2.11%	-10.57%	-12.28%
October 2007	Ghana Oil	24.05%	-9.25%	-1.87%
September 2007	Imara Holdings	13.75%	-4.94%	12.31%
August 2007	Ghana Commercial Bank	89.21%	-4.78%	10.11%
July 2007	OneLogix	-17.17%	-7.83%	12.03%
June 2007	Unilever Ghana	39.62%	-9.48%	15.57%
May 2007	Investrust Bank	289.24%	-6.53%	21.37%
May 2007	FMB Malawi	103.38%	-6.53%	21.37%
March 2007	FNB Namibia	20.81%	-1.51%	32.60%
February 2007	Grindrod	46.93%	-3.66%	28.31%
January 2007	~~dfcu Group~~	68.52%	3.53%	31.65%
December 2006	~~Bytes Technology~~	46.55%	5.75%	42.36%
November 2006	Guaranty Trust Bank	173.49%	0.56%	43.57%
October 2006	Fan Milk	84.87%	3.72%	53.72%
September 2006	~~Oryx Properties~~	35.35%	1.45%	39.62%
August 2006	NICO Holdings	158.38%	8.53%	54.79%
July 2006	New Mauritius Hotels	206.15%	9.08%	58.41%
June 2006	Zambeef	216.44%	9.09%	58.74%
May 2006	~~Kenya Airways~~	-21.02%	16.79%	22.05%
April 2006	Italtile	-35.17%	6.15%	50.25%
April 2006	Telkom	-33.65%	6.15%	50.25%
March 2006	Letshego	206.28%	7.46%	53.51%
March 2006	Furnmart	284.43%	7.46%	53.51%
Total Average Return		**71.18%**	**0.64%**	**27.36%**