

# OUT OF AFRICA

SEYCHELLES | OCTOBER 2019

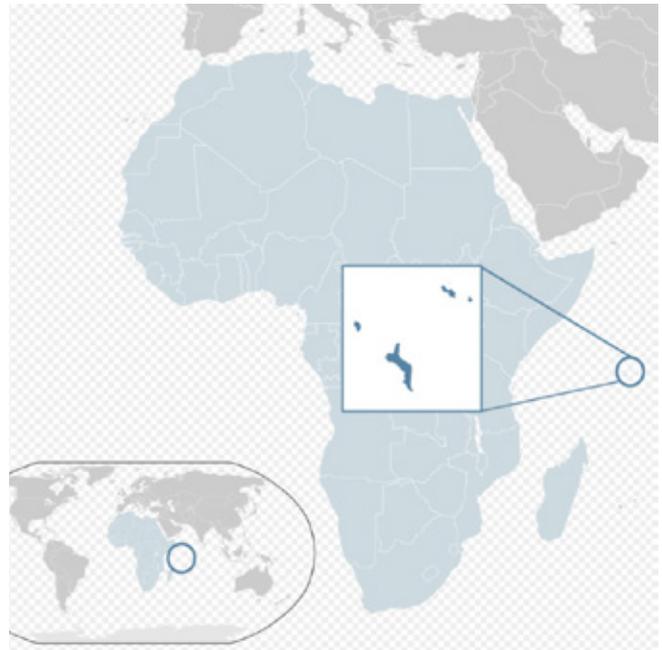
## SEARCHING FOR YIELD SURROUNDED BY THE INDIAN OCEAN

Cavan Osborne | Portfolio Manager

It might be small but it is the first to offer blue bonds, is one of the world's greatest per capita beer consumers and has unemployment of just 1-2%. Its Coco de Mer palms produce the world's largest nuts (up to 15 kg) and, from my view, it offers some of the best beaches and fishing spots in the world.

I travelled to the Seychelles on holiday and flew in a day early to see what investment opportunities the island nation offered. Firstly, those idyllic pictures of the Seychelles surrounded by blue skies and clear turquoise seas are all true. The Seychelles comprises 115 islands in the Indian Ocean, spread across a vast area to the east of mainland Africa and north of Madagascar. And it is almost Africa's smallest nation, with just less than 100 000 citizens; that translates into just one Seychellois for every 2 000 Nigerians or 1 000 Egyptians.

The Seychelles has its own stock exchange, which recently changed its name from Tropex to Merj. Interestingly, the stock exchange is in the process of going public and consequently



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increasing the number of locally listed Seychelles operating companies to five. In total, the exchange has around 30 listed securities, but most are offshore companies that require or want a listing. Merj is set to be one of the first exchanges to offer securitised tokens using blockchain technology. The only other exchange that is close to being able to offer securitised tokens is the SIX Swiss Exchange. One of the enquiries Merj has had, for instance, is to list securitised tokens for a collection of classic cars in Italy; famous art or a house are other possibilities. Blockchain indeed offers a transparent and an efficient method to list and trade a wide variety of assets. Merj's competitive edge is that its regulator is able to respond quickly to changes. Furthermore, the clearing and custody operations are controlled by the same shareholders as Merj. So there is little vested interest to create hurdles to these disruptive technologies. However, while the promoters of Merj present an interesting investment case, I am less optimistic of its prospects than its pre-listing outlook statement.

The largest of Merj's local listings is Seybrew, the local beverage business which is controlled by UK-listed Diageo. It produces beer, spirits and soft drinks. With the Seychelles having one of the highest per capita beer consumption numbers in the world at around 100 litres per capita, this equates to around one typical 33cl bottle of beer for each person in the country every day. The island nation is right up there with the beer strongholds of Germany, Poland and Austria, just behind the Czech Republic at 140 litres. The number is also boosted by being a tourist destination. I caught local buses stopping at various beaches. Local people were out in their numbers enjoying their beers. Seybrew, like the next largest local listing Sacos Insurance Group, is going through an earnings recovery phase after a few lean years. Seybrew had production issues and lost a significant share to imports. Driving around there, branding from the likes of Amstel (Heineken), Castle (ABInbev) and Phoenix (our strategy has exposure to Mauritius-based Phoenix beverages) is very visible. However, despite losing share, Seybrew is back to making one of the healthiest margins of the listed African beverage businesses at 20%. The high margin is not too much of a surprise given that the selling price at the local stores is more than US\$2 per serving.

Sacos's annual report was an interesting read. I can't ever recall reading a chairperson's report that was so direct. The company has made some mistakes, and had to change direction. Clearly, there has been a change in management and directors but even when new brooms are in place, the message is typically written in a more forgiving manner. The other listed companies include a warehousing business (that seems to have just one warehouse) and a fishing business called Sea Harvest.

The Merj stock exchange is small; in fact, the average market capitalisation of 33 listings is just US\$12 million and this makes it impractical to get meaningful exposure to a company.

Fixed income typically offers a more tradable investment opportunity. The Seychelles, like many African nations (and other Island countries for that matter), got itself over-indebted a few years back. In fact, it defaulted back in 2008. As part of getting the fiscal situation corrected, the Seychelles entered into debt-for-nature agreements whereby it agreed to swap foreign debt for a plan to protect its oceans; 30% of its oceans are now protected. The local government borrowings typically yield around 5%. This yield is not particularly attractive by African standards and this is before losing on the exchange rate spread, both putting money into the country and then converting it back at maturity. On a positive note, the rupee (SCR) has been relatively stable against the USD over the last five years, although it did devalue after the debt default.

Speaking of foreign exchange fees, I got a reminder of why many African banks are so profitable. For each transfer of cash I made for the holiday, there was a fee added for sending the money and another fee for the money received. The local tour operator I travelled with uses MCB (Mauritius Commercial Bank), so I gained some comfort as MCB is one the top five holdings we are invested in.

A real eye-opener was plastic waste. Air Seychelles' inflight magazine explained that on a clean-up of one of the outer islands 50 000 flip-flops were collected. The island where I stayed has a weekly clean-up but it was still sad to see just how much plastic is washed up along the beaches each day.



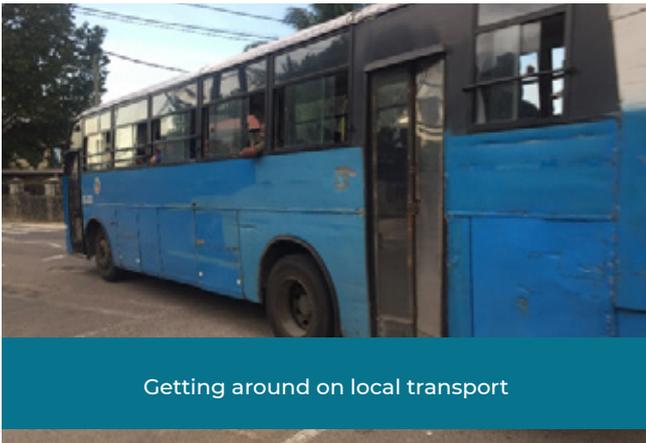
Strong presence of Mauritian businesses in Seychelles



Typical mom-and-pop store



The smart part of the main island



Getting around on local transport



Mahe Island where the capital Victoria is found. The geology is dominated by large granite outcrops



Driveway of the guest house

From a tourist's viewpoint, the Seychelles is absolutely beautiful but at this time I am not convinced that it is the best investment destination for an African fund. Having said this, I am reminded that Seybrew has been an investor's dream. It offers ferry and bus transfers for all its investors to its AGM, which is held at one of the exclusive holiday resorts on the main island and has traditionally included a big feast and party, oh and of course some voting. A local broker I met acts as Seybrew's company secretary, and explained that they have the role of confirming and validating all shareholders on arrival at the AGM – a nightmare rather than a dream. Seybrew is trying to wean its shareholders off this tradition – it has now moved the AGM to the weekend and only offers participants non-alcoholic drinks and lunch. Still, if Seybrew were to add Cape Town as one of its AGM ferry pick-up locations, I may need to speak nicely to our compliance department for an exemption.

## FAST FACTS ►►



### INDUSTRIES

Fishing, tourism, beverages



### UNEMPLOYMENT RATE

3%



### INFLATION RATE

2.9%



### EXPORT PARTNERS

UAE	28.5%
France	24.0%
UK	13.8%
Italy	8.9%
Germany	4.6%



### EXPORT COMMODITIES

Canned tuna, frozen fish, petroleum products



### IMPORT PARTNERS

UAE	13.4%
France	9.4%
Spain	5.7%
South Africa	5.0%



### IMPORT COMMODITIES

Machinery and equipment, foodstuffs, petroleum products, chemicals





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