

Investing in Ethiopia

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Capital, Ethiopia:

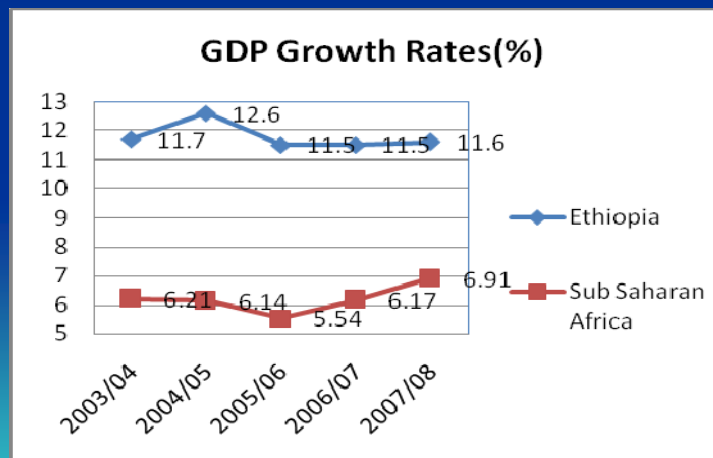
For Securities Africa, 16 March 2009

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Ethiopia: Overview

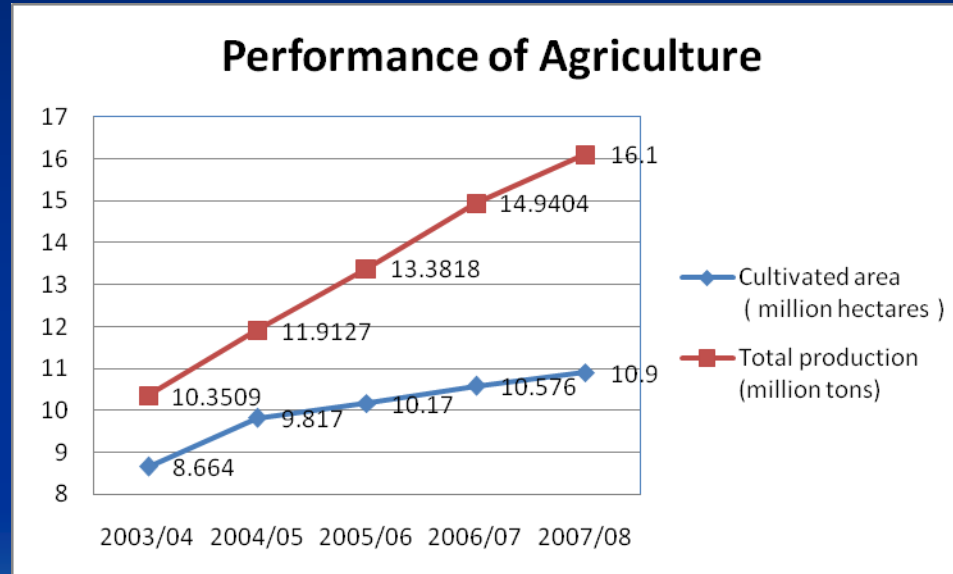
- The fiscal year ended June 2008 was 5th year of double-digit GDP growth. Growth is expected to continue strong.
- Highest registered growth for non-oil exporting African countries. China and only very few other non-oil producing countries worldwide managed the same.
- Year-to-year volatility in growth down substantially (less reliance on rain-fed agriculture).



Ethiopia: Overview 2

- **Growth is more *broad-based* and *less volatile*:** All 3 main economic sectors — agriculture, services and industry — grew strongly, none below 6% growth (last 5 years). 11 of 18 sub-categories registered growth of 8% or more (last 5 years).
- **Agriculture (dominant):** Expansion driven by rising land use and improved yields (both up by about 25% since 2003/04). Total production of major food crops reached record 16.1 million tons.
- **Services:** Government spending more than doubled between FY 2004 and FY 2008. Private sector services—retail trade, hotels, transportation, financial services and real estate—were key drivers of growth.
- **Demand:** GDP growth boosted both by private consumption and investment.

Agriculture: still dominant

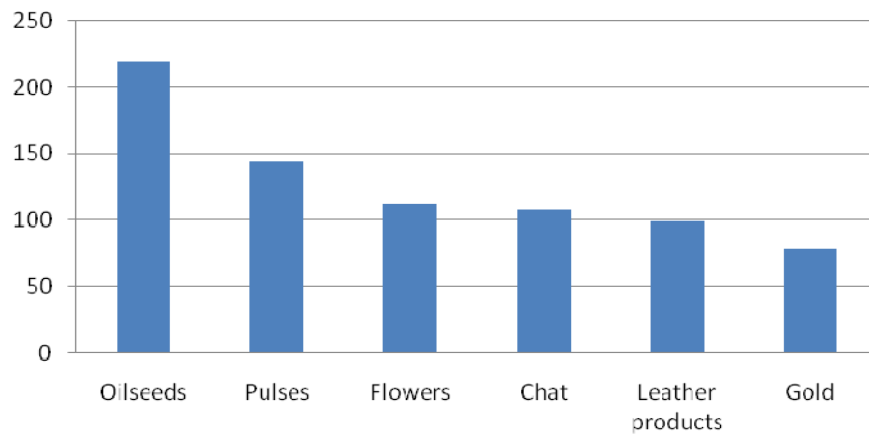


Ethiopia exports

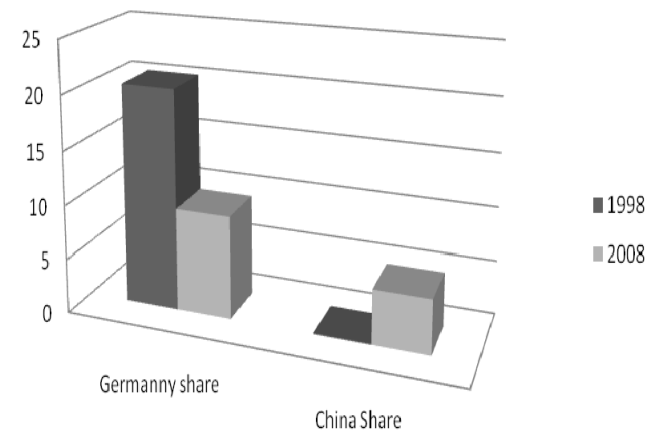
- **Exports up:** Nearly \$1.5 bn (6% of GDP). Annual growth averaged 25% in last 5 years (reflecting 13% average volume growth and 12% growth in unit prices). Growth is about 1½ times world export growth – Ethiopia has rising share.
- **Exports more diversified in *products*:** Coffee exports down to 36% of total exports (from 70% percent a decade ago). Leather goods, gold, oil seeds and pulses, chat, livestock and floriculture increasingly important - each at least \$50 million.
- ***Destinations* more diversified:** China was a top market for Ethiopia's exports in FY2006-07. Shift in trade and other economic links to faster-growing world regions such as Asia and the Middle East. Less concentration in Ethiopia's export markets - top 5 are less than 40% of exports (from 60% a decade ago).
- **Private sector:** Virtually all exports are private sector, implies \$1.5 bn in gross earnings to broadening base of entrepreneurs.

Ethiopia exports 2

Non-coffee exports of \$50mn or more(2008)



Export Market Destination Share(percent)



Forex

- **Forex up from services such as tourism:** Gross services income from tourism + transportation more than doubled (last 5 years). More annual tourists & strong revenue growth at Ethiopian Airlines.
- **Private transfers (remittances by Ethiopians abroad) up:** reached \$2.4 bn in FY2008, more than half from individuals and rest from NGOs. Another \$1.3 bn from official transfers (up from \$0.5 bn in FY2004).
- **Foreign investment is up more than five-fold in the past five years.** FDI data in the balance of payments suggest *actual inflows* rose from \$150 mn in FY04 to \$816 mn in FY08. In past year, mega projects of hundreds of millions of \$ reported/launched - cement, mining, manufacturing and agriculture.
- **External debt has been cut drastically.** Government debt (domestic and external) cut to moderate level (36% of GDP in FY08) by large debt relief. External debt of 12% of GDP is near sub-Saharan African average (down from peak of near 80% in 2001). External *debt service* burden has fallen from 2.4% to 0.4% of exports.

Ethiopia in figures

- **Population:** approximately 80 million (2nd in Africa)
- **GDP:** \$25bn (2008)
- **Road network:** 44,359 km in FY2008 (19,000 km in FY1993).
- **Power supply:** Generated electricity is 3,531GWH in 2008 (from around 1,100GWH early 1990s). 2,358 connected towns in FY2008 (from 300 – 1991). Population with electricity access is 1.7 mn (0.4 mn in 1991).
- **Telecommunications:** Fixed telephone subscribers of 890,741 in FY2007 (404,800 in FY2003), mobile 1.9 mn in FY2008 (98,000 in FY2003).
- **Water access:** Population with access is 52.5% in FY2007 (25% in 1990).

Ethiopia in figures 2

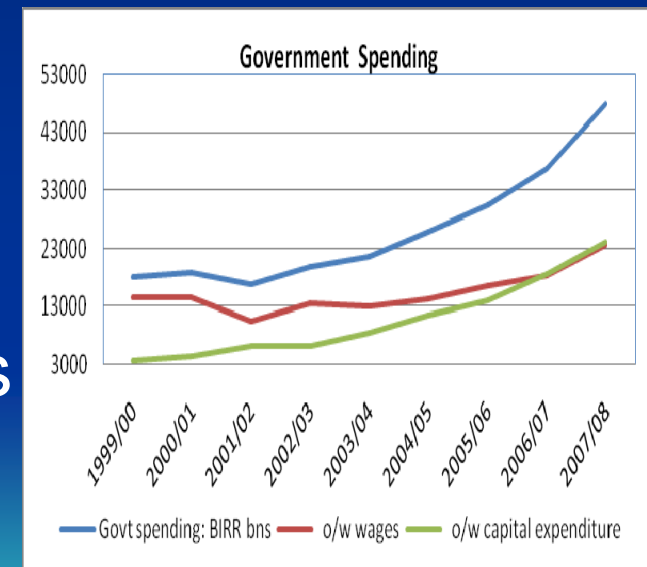
- **Agriculture:** Extension agriculture workers 58,817 in 2008 (9,368 in 2003). Irrigated land totals 697, 855 ha. in 2007/08
- **Education:** Primary enrollment up to 15 mn in FY2007 (around 5 mn in FY2000, 1.5 mn in the early 1990s), secondary up to 1.4 mn in FY2000 (0.4 mn in 1991/92), technical & vocational education and training 73,969 in 2006/07 (2,506 in 1991/92), university enrollment 180,000 in FY 2007 (under 18,000 in 1990/91), 13 new universities now open
- **Health:** Full child immunization up to 53% in FY2007 (30% in FY2002), total health posts up to 11,000 in FY2008 (119 in FY2002), Health Extension Workers 25,000 in FY2008 (2,737 in 2004)

Per capita GDP

| Per Capita Metrics | Mid 1990's | FY05 | FY08 |
|--|------------|------|------|
| US dollar per capita income(World Bank Atlas method) | 180 | 146 | 220 |
| Exports per capita | 8.3 | 8.6 | 18.7 |
| FDI per capita | ... | 2.1 | 10.4 |

Policy stimulus

- **Monetary:** Interest rates negative in real terms since FY2003, by as much as 30% recently (bank lending rates near 9%-10%) – spike in demand for loans.
- Government and State enterprises spend up to \$4.7 bn
- Tax and investment incentives
- Good weather and fertilizers for farming



Ethiopian Private Sector

- **Expanded** in many ways. Prospects are especially strong in agri-business, basic manufacturing, mining, construction, real estate and banking.
- Concern about whether **level playing field** exists in some sub-sectors, but this is not major concern for private sector (tax, securing land, access to credit are top concerns in World Bank Doing Business and Investment Climate surveys).
- Private sector **restricted** in some areas, especially telecommunications. Foreign investor restrictions (financial services, etc.)
- Growing very fast.

Investment Regulations

- One-stop shop for new investment approvals: Ethiopian Investment Authority.
- Protection for investors: Investment Proclamations (1992 & 1996).
- Tax incentives, especially for manufacturing and exports, include customs exemption on capital goods, income tax holidays, R&D expenses, etc.
- Corporate income tax mostly 30%, capital gains tax up to 30%, VAT 15%, dividends 10%, interest 5%.
- Land title under leasehold for up to 100 years.
- Remittance of forex on dividends and proceeds of selling shares or closing a business.

Constraints to Growth

- Financial sector underdeveloped
- Shortage of long-term risk capital bank lending restricted, no institutions or equity capital
- Management and governance (family businesses, etc.).
- Economic improvements modest in *per capita*/relative to GDP/in comparison to Africa's "star performers".
- Food insecurity - remains persistent challenge, partly poor land productivity.
- Inflation. Worst after Zimbabwe July 2008 was 64% and food price 92%), now down to 38% year on year, forecast more falls.
- Population growth – 2.6% or 2 mn per year.
- Failed to build national buffers of food and forex reserves during high growth.

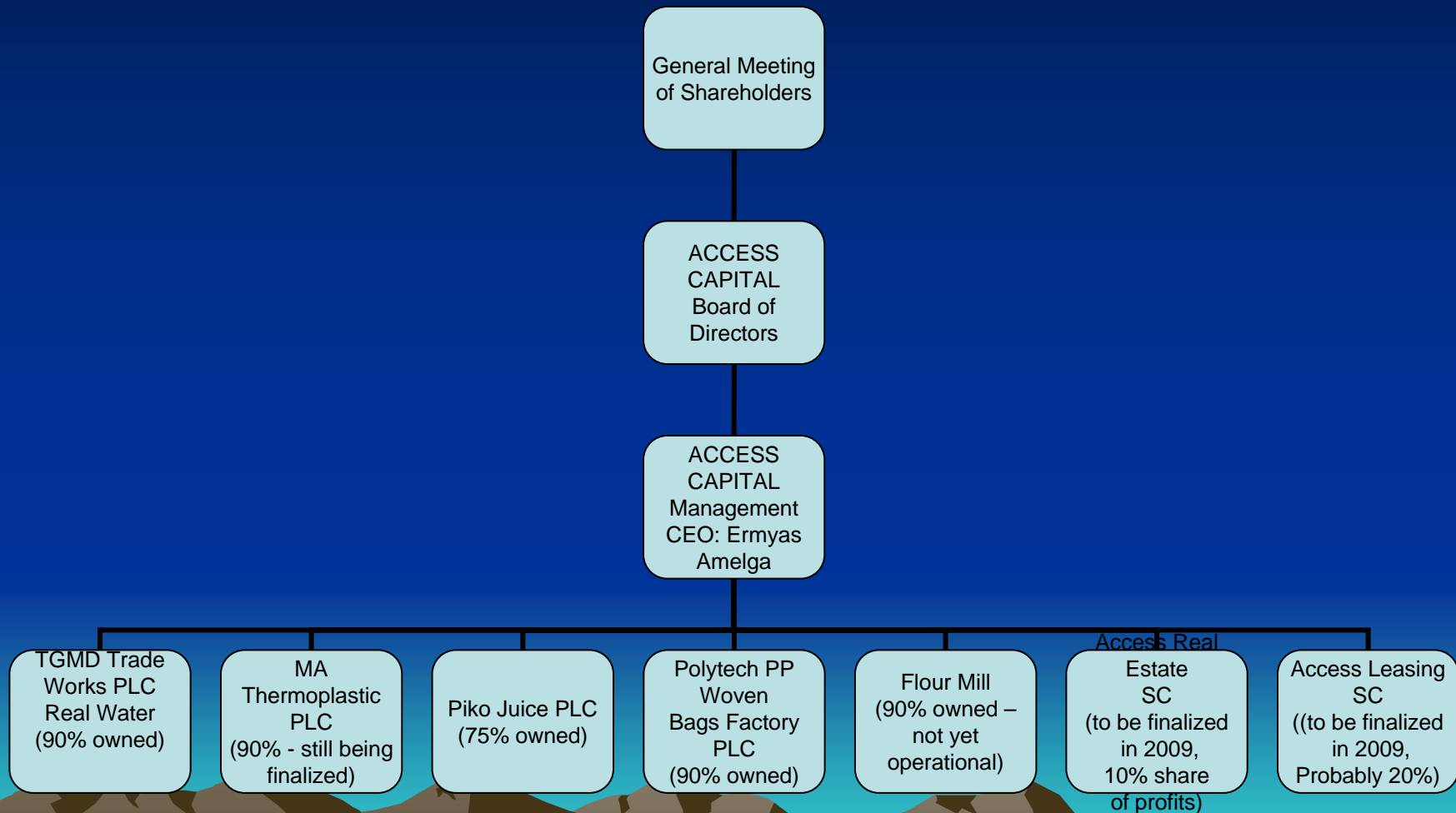
Opportunity

- **Population:** 2nd in Africa and 16th in world.
- **US dollar GDP:** Aggregate was \$25 billion (2008), 5th largest in Sub-Saharan Africa (after South Africa, Nigeria, Angola, Kenya).
- **Imports:** Imports near \$7 billion (2008), top 7 in Africa – good for import-substitution too.
- **Agricultural produce:** Africa's top coffee producer; among top Sub-Saharan producers of wheat (#1), barley (#1), corn (#3) and sorghum (#3). Among top 20 worldwide for these per US Department of Agriculture 2008 ranking.
- **Agricultural natural resources:** Among top 10 African countries in key resources, especially arable land and water.
- **Infrastructure:** Mega projects (roads, water, housing, cement, etc.) ongoing.
- **Electricity:** Massive potential to generate hydropower, and export some to Kenya, Djibouti, Somaliland, Sudan.

Access Capital

- Founded May 2007 through initial share offer (\$0.9 mn)
- Advised share offers: Zemen Bank 2008(\$14 mn), Access Real Estate
- Equity investments into distressed manufacturing leveraged buy outs (Thermoplastic, PP Bags, Real Water, flour factory) and start-ups (Piko Juice)
- Creates projects, advises investors

Access Capital structure



Access Capital Investments

ACCESS CAPITAL PORTFOLIO COMPANIES

| Name (PLC unless otherwise indicated) | MA Thermo-plastic Ind | Piko Juice Factory | TGMD Trade Works (Real Water) | Polytech PP Woven Bags | Flour Mill | Access Leasing | Access Real Estate |
|---------------------------------------|-----------------------|-------------------------|-------------------------------|-------------------------------|---------------|----------------|----------------------|
| Nature of Business | Plastic products | Packaged juice products | Bottled water | Industrial polypropylene bags | Flour | Leasing | Property development |
| Investment Amount (\$ mn) | 0.2 | 0.5 | 0.3 | 0.7 | 0 | 1 | 0.2 |
| Percentage Owned | 90% | 75% | 90% | 90% | 90% | 20% | - |
| Date of (expected) investment | Jan-08 | Nov-07 | Jul-08 | Jul-08 | no start date | during Q1-2009 | during Q1-2009 |

Planned investments

- Real Water expansion – \$2.5 mn to expand production to meet proven demand and introduce 5 litre bottles.
- Piko Juice: 1 litre juice packs – \$4 mn to introduce a full TetraPak© filling and packaging line and other facilities to introduce a 1 litre fruit juice product, to compete with imported fruit juices, offering significant cost saving.
- Access Leasing – \$1 mn, with several partners including International Finance Corporation, to set up Ethiopia's first commercial leasing company, supported by the favourable legislative environment. Launch during 2009.
- Further leveraged buyouts - \$2.5 mn to pipeline of projects being analyzed according to criteria to achieve 1 year payback on investments.
- Should the offer raise up to \$15 million, further projects will be indentified.

Co-investment opportunities

- Investors in share offer can co-invest with Access Capital in private equity/venture capital transactions + projects advised. Under consideration 2009/10 (figures are Birr mn):

- Agricultural Projects:

| | |
|----------------------|------|
| Livestock for export | 11.8 |
| Sesame | 11.0 |
| Wheat | 8.1 |
| Horticulture | 6.8 |

- Real Estate Development (Addis Abeba) 50.0
- Steel Rolling Mill (mini) 7.8
- Cement 24.3

Access Capital forecast

| | <u>2009</u> | <u>2010</u> |
|--|-------------|-------------|
| Earnings Per Share | 3,012 | 9,617 |
| Cash ROI (free cash flow/cash invested @ Birr 10,000) | 31% | 96% |
| Earning ROI (Earnings per share/cash invested @ Birr 10,000) | 30% | 96% |
| Price-Earnings (@Birr 10,000) | 3.3 x | 1 x |
| Price/Cash flow (CF=NPAT+D&A) | 3.3 x | 1 x |

Thank You

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