

# Maris Capital

## Maris Africa Fund Report Q2 2013

## TABLE OF CONTENTS

### SUMMARY

Maris Africa Fund Summary	3
Portfolio & Fund Valuation	4
Portfolio Development	5

### PORTFOLIO INVESTMENTS

#### RESOURCES / AGRICULTURE

Karebe Gold Mining Limited (Kenya)	7
Equatoria and Central Equatoria Teak Companies (South Sudan)	8
Tatepa, tea/avocados (Tanzania)	9
Select Exploration/Metals of Africa	12

#### SERVICES

MMO, serviced offices (Mozambique)	10
Afritise, outdoor advertising (South Sudan)	11
Network Support Services, telecoms services (South Sudan)	11
Máquinas e Tractores de Angola, JCB (Angola)	12
Equator Drilling (Tanzania/Mozambique)	12
Untu, MFI (Zimbabwe)	13

#### LODGING / REAL ESTATE

Quirimbas Support Services, serviced accommodation (Mozambique)	14
Acacia Village, serviced accommodation (South Sudan)	14
OSS Mozambique, warehousing (Mozambique)	15
Mulitani, serviced accommodation (Mozambique)	15

### MARKET OVERVIEW

South Sudan	16
Kenya	16
Tanzania	17
Zimbabwe	17
Angola	17
Mozambique	18

First Closing	9th June, 2009
Final Closing	8th December, 2010
Commitments	\$26 million
Fund's domicile	Cayman Islands
Structure	One General Partner 55 Limited Partners
Investment focus	Start-up Development capital Buy-out investments Sub Saharan Africa

Q2 was a period of consolidation for the fund; we made a follow-on investment in our managed office company in Maputo, Mozambique, due to strong demand, and focussed efforts on growing portfolio companies. After liquidity constraints in the Angolan economy earlier in the year, our JCB machinery dealership achieved its half-year forecasts, and this strength is echoed by its sister company in Tanzania. East Africa's new construction machinery sales for 2012 were estimated by JCB to be up by 67% from 2009, and are expected to grow by a further 50% by 2015; we are exploring further expansion opportunities for our dealerships within existing markets, and aim to replicate these businesses in adjacent markets going forward.

Our real estate investments have been reliable performers; despite the volatile environment in South Sudan, Acacia Village outperformed half year forecasts. Our accommodation units at Mulitani in Tete, Mozambique, will come on line in Q3, with housing units in Pemba, Northern Mozambique following in Q4. Our new warehousing in Tete will be complete in Q3/Q4 and we look forward to reliable income streams from these investments. Meanwhile, land prices in all our geographies have continued to appreciate.

Elsewhere this quarter saw record production levels for Karebe Gold Mining and in South Sudan we saw the first sustained production and exports to Asia at Equatoria Teak Company. Network Support Services posted record revenues for a single quarter and Afritise and Acacia Village achieved record EBITDA in Q2. Considering the environment in South Sudan these results are extremely encouraging.

This has also been a steady period for our target markets. Kenya's peaceful elections drove significant growth in the economy; South Sudan has resumed exports of oil and the country is edging its way back to a normal mode of operations. Further South, Mozambique has seen uneven progress; the coal town of Tete has slowed due to infrastructure constraints on transportation of coal to the sea, while activity in the coastal town of Pemba, the hub for gas discoveries offshore, has been faster than expectations. While GDP growth rates across Africa have been above 5% on average over the last three years, inflation is also now coming under control as the region moves towards greater economic stability. The outlier, however, has been Zimbabwe where growth slowed in the run up to Q3 elections and liquidity remains a concern.

This last quarter has seen extensive consultation with Limited Partners over the next phase for Maris. The outlook for our target markets remains encouraging against an increasingly lacklustre backdrop for emerging markets. The best opportunities continue to be the roll out of existing investments across East and Southern Africa, by teams we know and trust. After four years investing in early stage businesses in some of Africa's more frontier markets, we are determined not to squander our first mover advantage and will be sharing a proposal with Limited Partners in the next quarter that aims to build on a strong base.

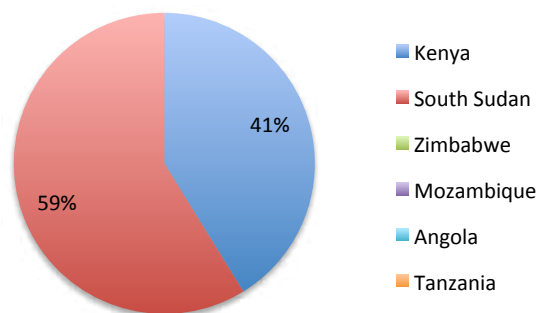
PORTFOLIO COMPANIES AT 10/04/13\*

					EQUITY (US\$m)					DEBT (US\$m)				TOTAL (US\$m)			
Date	Company	Country	Equity	Sector	Unrealised Cost	Unrealised Gains	Fair Value	Realised Gains	% of Cost	Loan	Fair Value	Loan Repaid	% of Cost	Total Cost	Proceeds/Valuation	% of Cost	Valuation Basis
Jun-09	KGML	Kenya	80%	Gold Mining	1.45	4.18	5.62	-	389%	0.49	0.65	0.20	124%	1.93	6.67	335%	Revaluation
Sep-09	NSS	South Sudan	71%	Telecoms	1.69	1.09	2.78	0.87	216%	-	-	-	-	1.69	3.64	216%	Revaluation
Sep-09	Acacia / OSS	South Sudan	47%	Lodging	1.02	0.51	1.53	0.39	188%	-	-	-	-	1.02	1.92	188%	Revaluation
Sep-09	Afritise	South Sudan	30%	Advertising	0.20	-	0.20	-	100%	0.04	0.05	-	130%	0.24	0.25	105%	Cost
Apr-11	Untu	Zimbabwe	19%	SME Banking	0.53	-	0.53	-	100%	0.10	0.10	-	104%	0.63	0.63	101%	Cost
May-11	OSS Moz	Mozambique	100%	Mining Support	2.22	1.28	3.50	-	158%	-	-	-	-	2.22	3.50	158%	Revaluation
Jul-11	MT Angola	Angola	50%	Dealership	1.77	0.49	2.26	-	128%	-	-	-	-	0.77	1.26	163%	Revaluation
Apr-12	Tatepa	Tanzania	18%	Agriculture	0.77	-	0.77	-	100%	-	-	-	-	0.77	0.77	100%	Cost
Apr-12	Mulitani	Mozambique	97%	Lodging	1.25	-	1.25	-	100%	-	-	-	-	1.25	1.25	100%	Cost
Jun-12	ETC / CETC	South Sudan	85%	Forestry	2.87	-	2.87	-	100%	-	-	-	-	2.87	2.87	100%	Cost
Oct-12	Select / Metals	Moz / Tanzania	<10%	Exploration	0.35	-	0.35	-	100%	-	-	-	-	0.35	0.35	100%	Cost
Oct-12	MMO (Eixo)	Mozambique	75%	Serviced Offices	0.16	-	0.16	-	100%	-	-	-	-	0.16	0.16	100%	Cost
Oct-12	QSS	Mozambique	49%	Lodging	2.02	-	2.02	-	100%	-	-	-	-	2.02	2.02	100%	Cost
Feb-13	MT Tanzania	Tanzania	50%	Dealership	0.31	-	0.31	-	100%	0.48	0.48	-	100%	0.79	0.79	100%	Cost
Mar-13	Equator Drilling	Moz / Tanzania	100%	Mining Support	0.78	-	0.93	-	100%	-	-	-	-	0.93	0.93	100%	Cost
<b>Total</b>					<b>17.53</b>	<b>7.54</b>	<b>25.07</b>	<b>1.26</b>	<b>153%</b>	<b>1.10</b>	<b>1.28</b>	<b>0.20</b>	<b>114%</b>	<b>17.53</b>	<b>25.07</b>	<b>150%</b>	

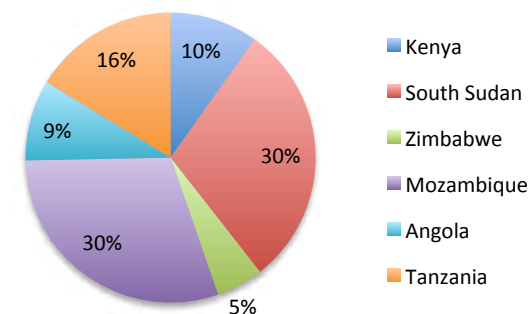
FUND SUMMARY (US\$m)\*

Capital Committed	26.10
Capital Called	23.49
Advisory Fee since first close	(2.91)
Establishment, Administration & Deal Costs	(0.61)
Late Entry Interest Payments	0.10
Gain on Revaluation	7.75
Dividends accrued	1.46
<b>Value of Fund</b>	<b>29.27</b>
<b>Fair Value of Fund / Capital called</b>	<b>1.25x</b>
Capital Distributed	-
Reserved for follow on	1.72
Available for drawdown	2.61

Investment Geographical Spread Q4 2009



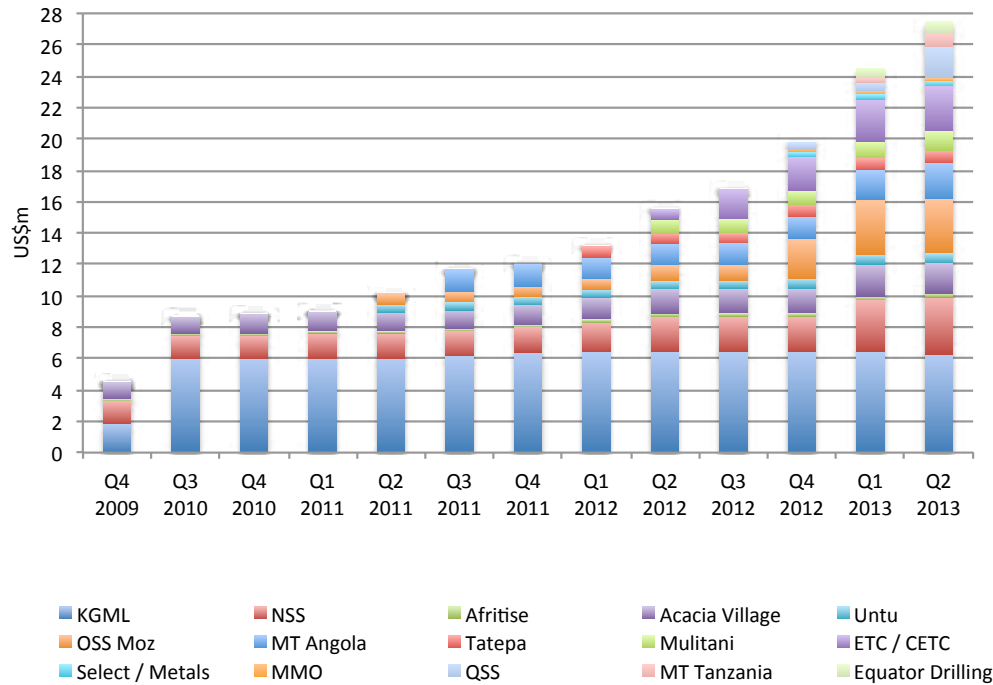
Investment Geographical Spread Q2 2013



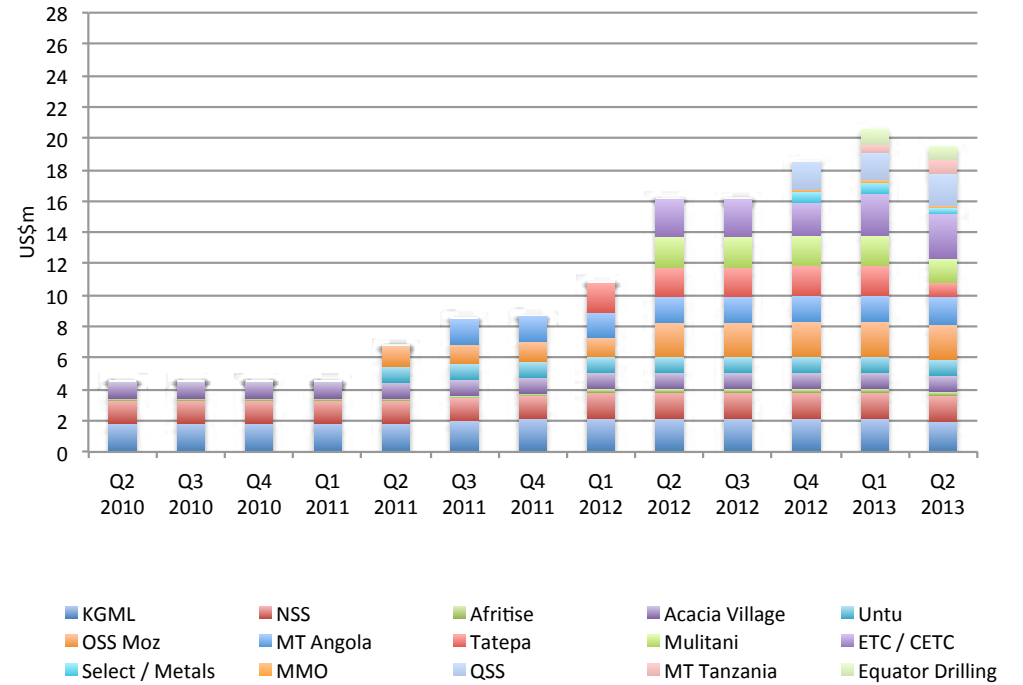
\*Unaudited

PORTFOLIO DEVELOPMENT

Total Value / Proceeds



Total Invested + Reserved for Follow On

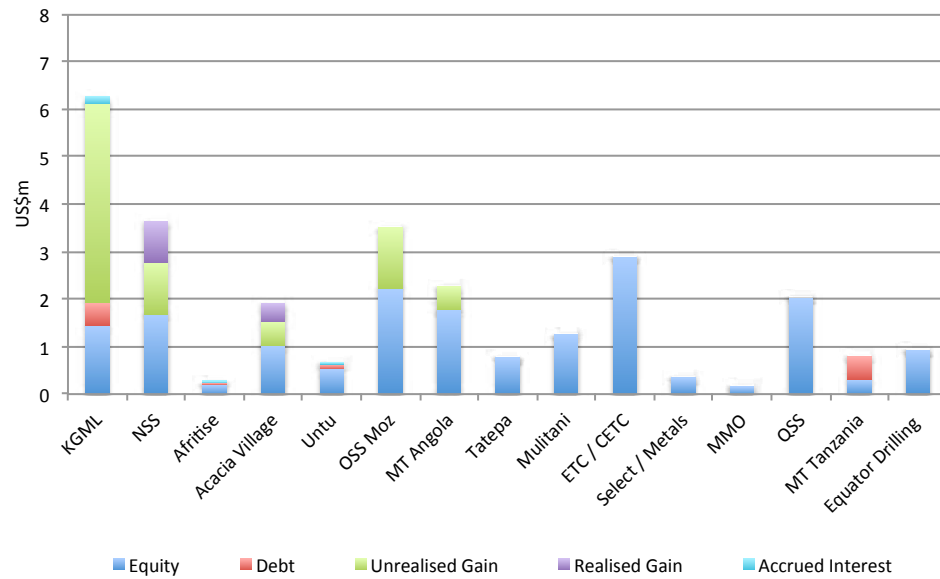


INVESTMENT PIPELINE

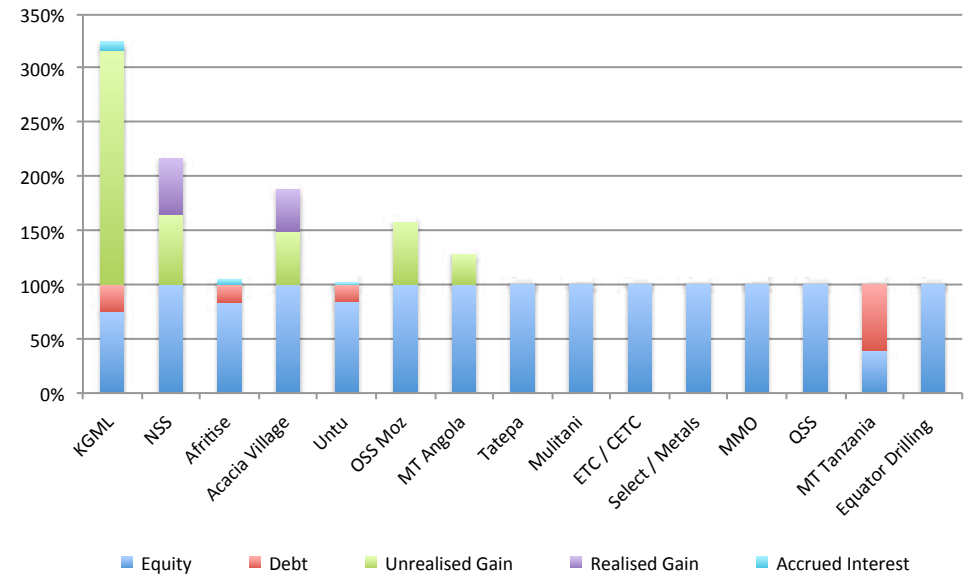
Demand for our serviced accommodation in South Sudan and in Mozambique exceeds our current provision and we are exploring expansion opportunities on the same sites, anchored by long term contracts. We continue to explore a second gold tailings opportunity similar to Karebe Gold Mining Ltd, overseen by the same management team.

PORTFOLIO DEVELOPMENT

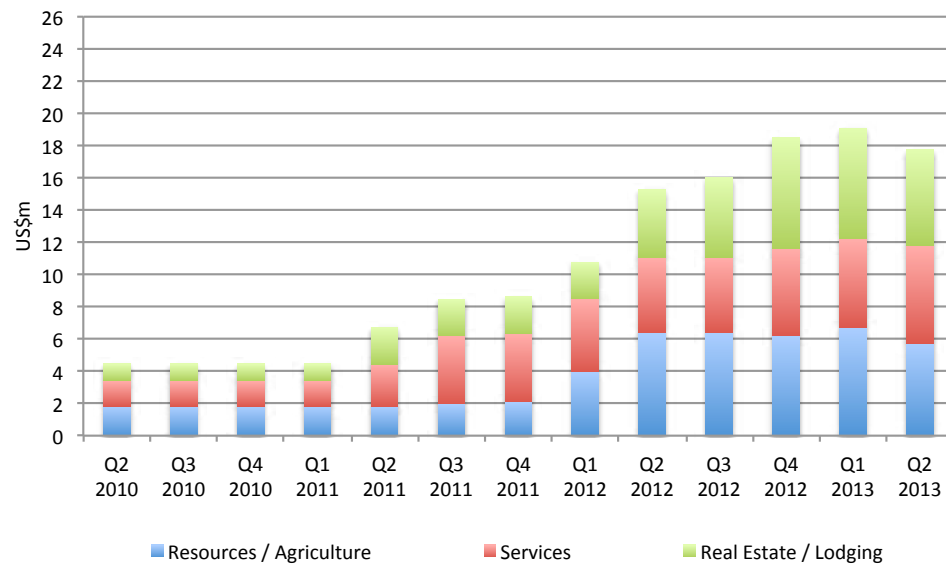
Proceeds / Valuation



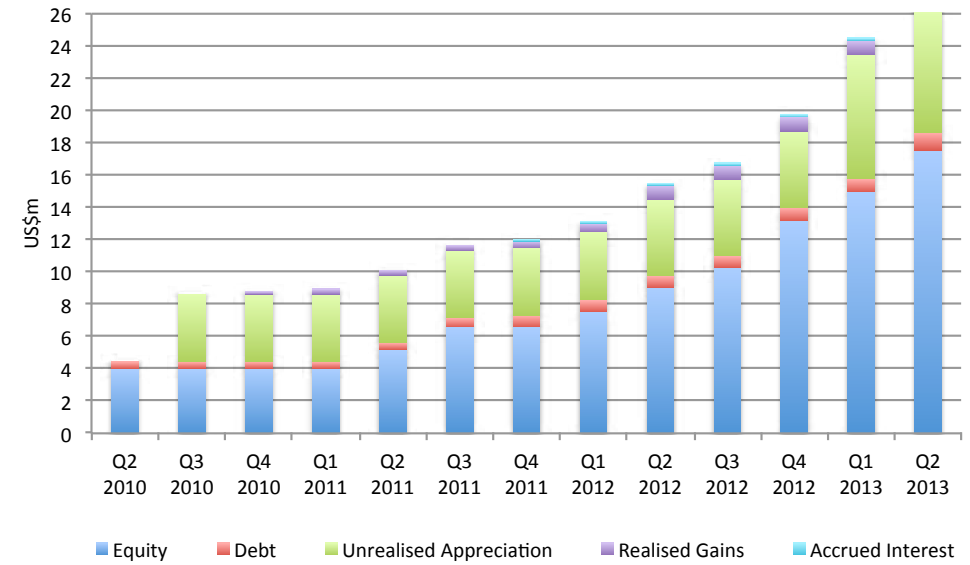
Proceeds / Valuation as % of Cost



Total Invested & Follow on - Sector



Total Value / Proceeds



## RESOURCES / AGRICULTURE

## KAREBE GOLD MINING LIMITED



Karebe Gold Mining Limited, Kenya (KGML) is one of two gold mining companies operating in Kenya. Karebe has produced 4,545oz Au since we broke ground in September 2010, equating to 141 kg's of gold at a value of \$6.7m. The company employs 205 staff, many of whom had no formal employment record, and is headquartered in Kisumu, Kenya.

Transaction Date	January 2009
Development Stage	Start-Up
Fund Ownership	80%
Equity Cost	\$1,447,576
Shareholder Loan	\$486,163
Loan Repaid	\$200,000
Valuation	\$ 6,474,364
Fund Board Membership	C Tryon

Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13 A*		FY 12A
Revenues	1,004	1,195	19%	2,343	1,195	-49%	2,548
EBITDA	313	86	-73%	1,081	86	-92%	946
Net Income	204	14	-93%	976	14	-99%	731

A = Actual / E = Estimate

\*Accounting is on a cash basis from gold sales, not gold production

Highlights

New Minister of Mining appointed  
 Grades improving significantly  
 Sorting plant fully operational reducing ore dilution to mill  
 Production averaging 10kg/mo for the quarter

Lowlight

Gold price remains weak  
 Land dispute at Rock Corry continues  
 Boma mine lags production target

H1 figures for KGML are more encouraging than the accounts state; only one gold sale was recorded in the quarter related to production in April, whilst May and June's production will be captured in Q3. The company may appear to have significantly under performed both EBITDA and Net Income versus the previous trading period and our forecasts, but this is offset substantially by our gold sale of 19.96 kgs captured in Q3. On an accrued basis Q3 saw sales of \$1.3m and H1 \$2m; YTD EBITDA on an accrued basis should be approximately \$850k.

Costs during the quarter have risen faster than anticipated due to the company taking on additional management and other staff. Staff numbers, including temporary workers surpassed 200, in part as a result of investment of the development of the second mining operation 1km to the East at Boma Mine; this is also due to the company improving its security. In the short term, production remains limited by ore handling from Equatorial Mine only, which continues to produce approximately 1,000 tonnes per month from underground. We are, however, improving handling techniques and driving a second shaft to surface, which should improve handling in the coming months.

Grades continue to remain very good and our average extract grade ex mill has doubled from Q1 to Q2. With our sorting line now operational we are reducing the ore feed to the mill, but have significantly increased the grade. In June our average grade ex mill was 23g/ton and actual Au extract post refining on site was 16 g/ton. In time this will drive down our cost per ounce considerably, but counter intuitively, drive up our cost per tonne.

If we continue to grow production at the current rate we will exceed our forecast and could seen revenues double from 2012. We hope to recover our shareholders loan and pay a welcome dividend at the end of the year.

RESOURCES / AGRICULTURE

EQUATORIA & CENTRAL EQUATORIA TEAK COMPANY



The fund owns 67% of two companies: Equatoria Teak Company, "ETC" and Central Equatoria Teak Company, "CETC", which have extensive mature teak plantations and associated processing facilities in South Sudan. They are South Sudan's leading sustainable forestry companies and are two of the country's largest employers, with a combined workforce of 200 people. They make up Africa's second largest teak company.

Transaction Date	June 2012
Development Stage	Refinancing / Development
Fund Ownership	67%
Total Equity Cost	\$2,871,686
Valuation	\$2,871,686
Fund Board Membership	C Ferguson, C Tryon

<u>Financials (US\$000s)</u>	<u>H1 13A*</u>
Revenues	98
EBITDA	(476)
Net Income	(625)

\*Q3 financials will include performance vs. forecast



Highlights

- Mill now fully operational
- Strong demand for product
- Strengthened management team

Lowlights

- Transportation costs above budget
- Looting from plantations
- Delays in Q2 due to manufacturing faults

Following a hiatus thanks to manufacturing and commissioning problems with the mill, Equatoria Teak Company saw production restart in June. The first full trials saw daily production volumes within 15% of forecast figures; we are confident that with further training and improved processes we can meet target volumes in Q3/Q4. The company produced 250 cbm of squares in June, which were shipped to buyers in India and Thailand. Thanks to a restriction on Burmese teak log exports, and the high quality of our product, demand is strong, and the company has received offers for all its squares production from individual buyers. We will, however, continue working through 5 - 6 international agents to ensure favourable pricing and payment terms. The company has produced over 70 cbm of A grade processed timber: pricing indications from potential clients are above expectations, but trial shipments need to reach their destination before we can contract larger orders. In the meantime, we have produced pallets for SAB Miller's brewery in Juba from our smaller dimensions. We anticipate that the company will be profitable in Q3.

Our biggest challenge has been transportation costs to Mombasa, which are 15% above budget; we have agreed a transportation partnership with DHL in Kampala that involves loose loading on site, and repacking into seaworthy containers in Kampala. This allows us to access the backhaul from South Sudan, and as export volumes increase, transport costs between the mill and Kampala should reduce back to forecast levels. Another challenge in Q2 has been looting from two of our compartments, which happened with the backing of Western Equatoria State Government officials. An investigations team from Central Government has been deployed, and a report is being submitted to the President's office, alongside a compensation claim to the State Government for lost revenues.

In Q2 the companies completed a capital raising of \$1.85 million at a pre-money valuation of \$10m. In view of June and July sales we do not anticipate that we will need to deploy all the funds raised, but they put the companies in a strong position to weather any volatility in the operating environment. The company has also recruited a new Managing Director, Ian Paterson, who has over 20 years' forestry management and sawmilling experience. The existing Managing Director, Darryl Shaw will focus on production in a technical capacity. The company now has 200 staff; over 92% of our workforce are South Sudanese and the majority are employed in our nursery, which is expanding rapidly.

## RESOURCES / AGRICULTURE

9

## Tatepa\*



Tatepa is the holding company for a group of companies active in the Tanzanian agriculture and agroprocessing sector. Two of the companies grow, package and market loose leaf black tea, while Rungwe Avocado Company is a start-up venture exporting avocados to Europe. Kymbila Tea Packing Company is the owner of Chai Tausi, a mass-market tea brand in Tanzania.

Transaction Date	March 2012
Development Stage	Buy Out / Development
Fund Ownership	18%
Equity Cost	\$ 770,000
Valuation	\$770,000
Fund Board Membership	J Gunnell



\*Tatepa is a PLC and therefore numbers can only be provided once publically released

Tea prices have started picking up as the post-Kenyan elections destocking comes to an end and Wakulima Tea Company put in a strong performance this half. Chai Tausi has also seen a strong pick up in sales and the firm hit close to 60 tonnes per month in Q2. Greater shareholder support and focus, combined with investment in distribution and advertising has seen good results and the future looks bright for a business which could well become one of the most valuable assets in the group.

Start-up Rungwe Avocado Company underperformed in H1. 2013 was the first year in which commercial quantities of avocados were shipped: poor logistics and a tightening market window resulted in lower prices than anticipated. Overall, the quality of fruit leaving the tree is good and a sharp focus on correct sizes, early season picking and a tighter logistics chain will be key for the next harvest season.

## SERVICES

## Network Support Services



Network Support Services Limited (NSS) is the dominant GSM infrastructure construction and maintenance business in South Sudan. The company is managed by Phil Taylor and is headquartered in Juba. NSS is Huawei's preferred partner in South Sudan.

Transaction Date	September 2009
Development Stage	Development Capital
Fund Ownership	71.25%
Equity Cost	\$1,685,891
Valuation	\$2,778,750
Realised return	\$502,688
Fund Board Membership	C Tryon



NSS staff escorted to preventative maintenance by UN in Jonglei

Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A		FY 12A
Revenues	4,892	6,839	40%	5,353	6,839	28%	10,346
EBITDA	376	628	67%	942	628	-33%	1,028
Net Income	332	451	36%	858	451	-47%	860

A = Actual / E = Estimate

NSS continues to be the leading maintenance services provider in South Sudan. We manage 156 sites and are bidding for a further 50 sites in Upper Nile State. Whilst the sites under management are growing sufficiently to offset margin compression from Huawei, the company is working to secure business with other operators. Growth in Q2 has been significant versus a slightly disappointing Q1. Revenues are up 72% on the previous quarter and net income by marginally more. Much of the improvement in the results is attributable to a strengthening South Sudanese Pound and invoicing for work undertaken in Q4 2012 and Q1 2013. The company has seen a decline in ad hoc installation work from both Nokia Siemens and Huawei and has been forced to surrender a small number of sites to Huawei from its managed services contract. Trading conditions in South Sudan remain turbulent. NSS will seek to navigate a cautious passage through the next six months. Management will look to cut costs and implement efficiency improvements where possible and drive business with other operators.

## SERVICES

### Afritise



Afritise Limited (Afritise) is the dominant outdoor advertising company in South Sudan with coverage in 11 cities and towns and is headquartered in Juba. The company has constructed over 6,800m<sup>2</sup> of billboard space.

Transaction Date	September 2009
Development Stage	Start-Up
Fund Ownership	30%
Equity Cost	\$ 198,949
Valuation	\$249,485
Shareholder Loan	\$39,000
Fund Board Membership	C Tryon



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A		FY 12A
Revenues	238	386	62%	326	386	18%	556
EBITDA	20	179	786%	123	179	46%	89
Net Income	-22	168	n/a	41	168	305%	-4

A = Actual / E = Estimate

Afritise continues to build on strong first quarter results and posted a half year profit of \$168k. Particular attention is being paid to controlling costs whilst also ensuring revenue growth through larger and better quality structures. Depreciation has not yet been posted and this will affect the final Q2 figure. Afritise is continuing to build larger signs in Juba and around the country. We have introduced a new design of signs into the regional towns of Yambio, Rumbek and Wau and these signs have been sold to South Sudan Breweries Limited. We are operating on the same staffing level as previous trading periods and the staff continue to perform well. Competition in the industry is increasing but Afritise continues to prosper in very tough trading conditions as it consolidates its first mover position.

## SERVICES

### Mozambique Managed Offices (formerly Eixo)



Mozambique Managed Offices is a start-up managed office company providing serviced office space to companies located in Maputo, Mozambique. It is expanding its business into new premises and caters to both the local SME market and international corporations.

Transaction Date	October 2012
Development Stage	Start-Up
Fund Ownership	75%
Total Equity Cost	\$150,000
Valuation	\$150,000
Fund Board Membership	J Gunnell



Financials (US\$000s)	H1 13A*
Revenues	291
EBITDA	95
Net Income	56

\*Q3 Financials will include performance vs. forecast

During Q2, the MMO team managed to maintain an occupancy rate of 100% in all of its office centres. Due to ongoing demand for additional space MMO focused on finding appropriate additional space. A suitable office location with a high quality landlord has been identified in the main business district of Maputo city. Given the success of the business, the Maris Africa Fund has decided to support and fund this expansion.

Negotiations are underway and the contract for an additional 600m<sup>2</sup> is imminent. The local management team has put together a marketing plan to attract new clients.

## SERVICES

## MTA - Máquinas e Tratores de Angola



Máquinas e Tratores de Angola (MTA) has a dealership license to sell JCB machines, spare parts and after-sales service within Angola. The company is a joint venture between Maris Capital and Muscat Overseas Group (owner of multiple machinery dealerships across the region).

Transaction Date	July 2011
Development Stage	Distressed Refinancing
Fund Ownership	50%
Equity Cost	\$1,711,765
Valuation	\$ 2,259,245
Fund Board Membership	A Fimister



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A		FY12A
Revenues	2,508	2,883	15%	2,913	2,883	-1%	4,761
EBITDA	333	311	-7%	304	311	2%	416
Net Income	193	188	-3%	167	188	13%	253

A = Actual / E = Estimate

After a weak Q1 due to liquidity constraints in the economy, MTA bounced back to its target 2013 profitability in Q2 with healthier gross margins than 2012. Spares and service revenues averaged 44% over the 6 months, up from around 20% in the the previous year. H1 has seen 24 units sold, of which 14 are the market leading JCB 3CX backhoe loader. Sales should pick up in the second half of the year as the liquidity issues within the country ease.

MTA's new power division (generators) won a key contract for 2x G1100QX gensets, which will make the division profitable in Q3. MTA won a JCB award for Breakthrough Growth in this field and there are exciting prospects in the Angolan generator and machinery market. The buyout of our former partner, a Portuguese construction company, is complete, though they remain a key client of the company.

## SERVICES

## MTT - Machines &amp; Tractors Tanzania



MTT (Machines and Tractors Tanzania) has an exclusive licence to sell JCB machines, spare parts and after-sales service within Tanzania. The company is a joint venture between Maris Capital and Muscat Overseas Group (owner of multiple machinery dealerships across the region), and builds on a successful partnership in MTA (Máquinas e Tratores de Angola).

Transaction Date	Feb 2013
Development Stage	Turnaround/Refinancing
Fund Ownership	50%
Equity Cost	\$310,031
Loan	\$479,268
Valuation	\$310,031
Fund Board Membership	J Gunnell



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A	
Revenues	1,319	1,924	46%	1,475	1,924	30%
EBITDA	-65	259	n/a	54	259	382%
Net Income	-217	161	n/a	10	161	1442%

A = Actual / E = Estimate

MTT has had a strong start to the year with revenues and units sold significantly up compared to the H1 2012 performance of its predecessor, Maha. MTT started trading on February 4th and inclusive of the units Maha sold in January, the company has sold 23 machines until end June. This compares to 27 units sold in total in 2012, and the company is on track to beat its 2013 forecasts. The company has invested in a new fleet of service vehicles and the premises are currently being renovated in time for the customer open-day in October.

The company has also invested in training for technicians and Q3 will see the arrival of a new service manager. The Managing Director has made a solid start and we look forward to the rest of the year, particularly given the second half is usually seasonally stronger.

## SERVICES

12

### EQUATOR DRILLING - MOZAMBIQUE AND TANZANIA



Equator Drilling is a start up drilling business which offers explorative geological drilling, specialising in the remote areas of Mozambique and Tanzania. The company is in talks with several junior exploration companies, including Metals of Africa and Select Exploration with extensive early stage exploration licenses in addition to bidding on a number of projects with mid and large mining companies in the region. From this base the company plans to expand its fleet and client list regionally.

Transaction Date	Q1 2013
Development Stage	Start-Up
Fund Ownership	100% - reducing to 51%
Total Equity Cost	\$775,000
Valuation	\$775,000
Fund Board Membership	C Tryon, A Fimister



Equator Drilling is close to launch date: the company has been registered, import formalities are nearing completion and equipment is poised for mobilization. We are in the final stages of negotiating two contracts for diamond drilling work. The global slow down in the exploration sector has been severe, and has affected Africa: one commentator in the sector suggested that of the 900 or so junior explorers listed worldwide, 60% had less than \$250k on their balance sheets in June 2013.

We have committed \$775k to the business to date and have maintained an operating cost of less than \$12k/month. With comparatively low costs, we feel better placed to weather conditions than larger, highly leveraged drilling companies, but we will continue to monitor the market closely, and have developed a contingency plan to deploy our excellent Manager elsewhere should the outlook worsen.

## RESOURCES

### EXPLORATION - MOZAMBIQUE AND TANZANIA



The fund has invested in a group of three exploration companies that hold numerous licenses across Mozambique, Zimbabwe and Tanzania: Select Exploration Ltd (ASX), Metals of Africa Ltd (ASX) and Express Resources (private). Licenses include precious and base metals, with a particular focus on coal, gold and uranium. These projects build on the management team's successful track record in East Africa.

Transaction Date	October 2012
Development Stage	Start-Up
Fund Ownership	<10%
Total Equity Cost	\$ 347,826
Valuation	\$ 347,826

Metals of Africa PLC recently announced a merger with Express Resource thereby giving shareholders liquidity in the formerly privately held Express Resources Ltd. Express holds a large number of prospective licenses in Tanzania and Mozambique and has identified a number of drill targets. Results are encouraging from both companies and we expect to contract drilling work for Equator Drilling from these companies.

Select Exploration has been a disappointment. The company overspent and failed to cut costs despite a tightening of the fund raising environment and fall in the coal price. Select is looking to expand its resource focus and raise additional capital to take advantage of some distressed opportunities in the sector.

## SERVICES

## Untu



13

Untu Holdings Limited, Zimbabwe (Untu), is a microfinance institution that was founded in 2009 by CEO Clive Msipha to meet the growing demand for credit from small businesses and entrepreneurs. Untu offers loans, savings and insurance products from its branches in Harare and in towns across southern Zimbabwe.

Transaction Date	April 2011
Development Stage	Start-Up / Development
Fund Ownership	19%
Equity Cost	\$529,511
Debt	\$100,000
Fund Board Membership	C Ferguson



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A		FY 12A
Operating Income	649	703	8%	716	703	-2%	1,283
Operating Expenses	455	682	50%	475	682	43%	1,111
Impairment Provisions	85	38	-55%	125	38	-70%	163
Net Income	86	-17	n/a	92	-17	n/a	-14

A = Actual / E = Estimate

In the run up to elections the credit environment in Zimbabwe has remained challenging. The liquidity cycle has been tightening, leading to a market wide deterioration in loan quality, and a US\$700+ million withdrawal from the banking sector. Against this environment, Untu has improved its PAR (Portfolio At Risk) from 27% in Q1 to 16% in Q2, and is on track to achieve single digit PAR in Q3. This has been through strengthened credit processes, an improved collections process, and gradual loan book growth.

Over the last six months Untu has invested in the recruitment and training of new loan officers; current loan officer productivity stands at 71 loans/officer against an industry average of 150. Untu has hired an ex-Manager from a leading microfinance operator to drive up loan officer productivity, without sacrificing credit quality. Combined with savings of \$6k/mo, Management remain confident that they can meet Net Income targets by the end of the year, though the board may choose to slow loan book growth if the political environment deteriorates.

## LODGING / REAL ESTATE

### Acacia Village



Acacia Village is a camp services and logistics provider in Juba that remains Trip Advisor's leading Juba residence. Acacia Village comprises a 34-room apart-hotel with associated storage and office facilities.

Transaction Date	September 2009
Development Stage	Start-Up
Fund Ownership	47%
Equity Cost	\$1,021,186
Valuation	\$1,645,000
Dividends	\$393,787
Fund Board Membership	C Tryon



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A		FY 12A
Revenues	838	875	5%	838	875	4%	1,680
EBITDA	314	353	12%	331	353	7%	637
Net Income	-28	228	n/a	180	228	27%	187

A = Actual / E = Estimate

Despite a challenging environment in South Sudan, Acacia has continue to perform well. Our results are noticeably better than last year and significantly ahead of forecasts for 2013. We have suspended building works on additional rooms at Acacia in view of political and economic uncertainty, and we may well see results come in under expectation in Q4 as a result.

This said, Acacia is currently bidding on a large government contract which could see us add 26 rooms and 2 office units to the business, substantially expanding our business. For now we are content to tread water and build up our capital reserves in readiness for a recovery in South Sudan.

### Quirimbas Support Services



Quirimbas Support Services (QSS) plans to offer serviced accommodation on the outskirts of Pemba for clients associated with the offshore gas discoveries in the nearby Rovuma Basin. Further opportunities include the leasing of cars/machinery and the construction of office space, storage and warehousing.

Transaction Date	Q4 2012
Development Stage	Developmental Capital
Fund Ownership	48%
Total Equity Cost	\$ 2,021,395
Valuation	\$ 2,021,395
Fund Board Membership	J Gunnell, A Fimister



Civils work for the three accommodation blocks and communal area are nearing completion. The first shipment of materials arrived by sea from South Africa in June.

Pemba continues to grow at an astonishing pace on the back of the natural gas discoveries that place Mozambique at number 10 on the global list of proven gas reserves (soon to rise to number 6); prices for local land, goods and services continue to rise.

Other housing projects are coming online but these are generally on a much smaller scale, built to a lower specification, or tend to be a different product aimed at a different market, for example beach-side lodge units. The compound is in an optimal location, close to all the major corporates on the main road and within the planned 'residential' zone.

## LODGING / REAL ESTATE

### OSS Mozambique



OSS Mozambique offers warehouse provision and related mining services in the Tete area, northern Mozambique. Phase 1 saw the successful construction and sale of our first compound of warehouses and offices. We are now building the headquarters of a major mining services company, having secured a long term contract with them.

Transaction Date	May 2011
Development Stage	Start-Up
Fund Ownership	100%
Equity Cost	\$ 2,218,000
Valuation	\$ 3,500,000
Fund Board Membership	A Fimister



Financials (US\$000s)	H1 12A	H1 13A		H1 13E	H1 13A
Revenues	0	15	n/a	15	n/a
EBITDA	-49	-21	-56%	-21	n/a
Net Income	-49	21	n/a	21	n/a

A = Actual / E = Estimate

Two main construction projects in Moatize, Tete, are nearing completion: a 600m<sup>2</sup> warehouse and a 300m<sup>2</sup> office for a multi-national mining services company are on schedule for a handover on 1st October; we have signed a six year contract for these facilities. Four further units will be complete by the end of October. We have paused construction on any further warehouses due to a slow down in the market in Tete. Vale and Rio Tinto have slowed production due to challenges in transporting coal to the cost. New railway lines from Tete to Nacala will be operational in 2015, but in the mid term we could see local expansion slow. We may seek to reinvest some of the profits from the 2012 sale of Tete warehousing in other areas in Mozambique such as Matola, the industrial zone of Maputo, or in Nacala, the northern port city where the new coal terminal is being built.

## LODGING / REAL ESTATE



### Mulitani

Mulitani offers serviced accommodation on the banks of the Zambezi to serve demand from clients associated with the major coal developments in Tete, Northern Mozambique. Phase 1 includes the construction of ten houses and a communal recreational area; Phase 2 includes the construction of further houses and apartments on specific requests from companies operating in the area.

Transaction Date	April 2012
Development Stage	Start-Up
Fund Ownership	48.5%
Total Equity Cost	\$1,249,745
Valuation	\$1,249,745
Fund Board Membership	A Fimister



The first ten houses that make up Phase One comprise 25 bedrooms and will be furnished and ready for clients in August 2013. The houses have a large communal swimming pool (20m x 8m) and the two river front houses each have a private plunge pool. Most furniture has been sourced in South Africa due to the significant strengthening of the USD against the Rand, with the remainder being made by local carpenters.

We have signed a letter of intent to rent up to 54 bedrooms to an international client; this will require a further 12 houses; Mulitani intends to fund construction from cash flow and from local debt. The company's existing assets were valued in Q2 by the potential debt provider, a local bank, at \$5m. The represents a 100% appreciation on our fund valuation.

## MARKET OVERVIEWS

16

### SOUTH SUDAN

Q2/Q3 saw political volatility in South Sudan: President Salva Kiir dissolved his entire cabinet as part of a long held plan to reduce the total number of ministries from 32 to 18. This move also involved the sacking of key political rivals Vice President Riek Machar and Chief Negotiator Pagan Amum. South Sudan politics is dominated by a single party. Optimists suggest that these rivalries could signal the dawn of multi party democracy in South Sudan - others are wary of conflict. At the time of writing, the new cabinet has not yet been approved by parliament.

This political volatility follows on the back of a second threatened oil stoppage, which President Omar Al Bashir stated was due to the South's ongoing funding of the rebel movement SPLM - North. Despite his threats, oil production has not stopped, which may be down to Chinese intervention; Chinese entities are leading investors in the oil industry, and the pipeline to the north.

Despite turbulent headlines, and ongoing conflict in Unity State and Jonglei, the economy shows signs of a return to normal operations: oil production restarted in April and oil was delivered to the refinery in Port Sudan in May. Inflation levels have significantly improved, falling from a peak of around 80% in May 2012 to single digits for the first time since 2010. Last year, GDP contracted a staggering 49% as a result of the oil fields being shut down, but with the oil now turned back on it can be expected a large proportion of this contraction will be reversed. However, while South Sudan previously produced around 350,000 barrels of oil per day, production levels are expected to be lower, between 150,000 and 200,000 barrels per day.

The South Sudanese government is optimistic that more oil deposits will be discovered along the border with Kenya. Contracts have been signed to build oil refineries in the South, which would lessen the country's dependence on imports. Ethiopia is planning to build a larger refinery on the South Sudanese border with the ability to process around 180,000 barrels per day, but these plans are in a formative stages.

A historic visit to Juba in April by President Omar Al Bashir may indicate greater co-operation, as a result of internal pressure and a highly critical international community. Both sides have conceded that hostile conflicts are impeding growth prospects.

### KENYA

Kenya's GDP growth has been sluggish, with growth for the first four months of 2013 amounting to just 2% year on year. This was to be expected as uncertainty surrounding the general elections delayed investment decisions and general business inactivity. With the elections now having passed it is reasonable to assume that growth rates will accelerate for the remainder of the year, though the government's expectation of 6% GDP growth for 2013 looks optimistic. In an effort to spur growth, the Central Bank cut the benchmark rate to 8.5% in May, although further reductions are not expected in the near future.

Overall, inflation has remained stable around 4%. While up from a low of 3.2% in January, this is a significant improvement on 12% a year ago. Going forward, inflation is expected to rise, given the 14% increase in the statutory minimum wage in May. The Kenyan shilling stabilised around KSH80-85, a welcome change from the volatility of the last year. The consensus is that currency is expected to slightly weaken throughout this year, due to a national current account divergence given strong demand for imported goods. Encouragingly, this is being increasingly offset by large inward flows of stable diaspora remittances. At a constant \$100 million a month they now represent the second largest constituent contributor to Kenya's foreign exchange activity after tea exports.

Investment activity in Kenya continues to gather pace and attract global attention. This has been led by oil exploration, with 45 of the country's 46 exploration blocks allocated to 35 separate companies including Tullow Oil, Total and CAMAC. A recent report from the IMF states that Kenya can expect to be producing oil in 6 to 7 years time, and gas exploration has also started to increase. Total, the French supermajor, stated they are hopeful of finding gas in the Lamu Basin, although it is too early to determine if this will be in commercial quantities. Interestingly, Kenya has also been active as a foreign investor itself. A report by Ernst & Young ranked Kenya as "the 5th biggest foreign direct investor in other African countries over the past 5 years". Meanwhile, in Nairobi there has been an array of new hotel projects. Hemingways, Best Western and the Kempinski have all opened their doors with the Radison, amongst others, currently under construction.

On a positive note, the general elections were considered a success with none of the violence seen at the last elections. The incoming President Kenyatta has made a solid start. He has cut the number of Government Ministries to 18, a significant

## MARKET OVERVIEWS

17

reduction from 44 Ministries, although it is not yet clear whether this will help control government spending. The Kenyan MPs have once again scheduled a vote to increase their pay and the costs of increased devolution under the new constitution remain unclear.

### TANZANIA

Tanzania continues to display relatively strong and stable macroeconomic conditions, with GDP growth around 7%. This has been driven by sectors such as manufacturing, transport, wholesale and retail trade, as well as strong export growth. Exchange rates remain stable and headline inflation has fallen to single digits, hitting a two year low of 8%.

Opportunities for investment continue to grow, with mineral exploitation a key driver of economic development. In particular, large scale gold mines have been profitable over the last year despite the fall in gold prices. Further licences have been issued for gas exploration, and there are plans to construct a new Chinese financed gas pipeline from Mtwara to Dar es Salaam, expected to be completed by December 2014. Statoil, BG and Ophir have all made good progress in exploration, with proven reserves now at 60TrCF. Additionally, increasing consumer demand for food, transport and other goods, combined with an expanding urban population, will ensure that internal investment levels continue to gather pace. Encouragingly, power and water issues which have long impeded growth are now being addressed. The supply of electricity in particular has been one of the main obstacles for businesses across the country.

Against this positive economic outlook is a slightly unsettled social and political backdrop. The first draft of the new Constitution is expected to be the subject of much debate, particularly with respect to greater independence for Zanzibar and limitations on presidential power. Government departmental budgets also faced heavy criticism recently. Although unlikely to be a major concern going forward, it has resulted in some apprehension among commentators about next year's Presidential elections.

### ZIMBABWE

The political situation in Zimbabwe remains uncertain in the aftermath of the recent elections, held on 31st July 2013, which saw ZANU-PF claim victory with a significant majority. The opposition MDC has claimed electoral fraud and refuses to accept the result. This ongoing political uncertainty, exacerbated by the government's own indigenisation program, which states that 51 per cent of certain businesses must be black Zimbabwean owned, has led to a deteriorating investment landscape. This downturn comes after an initial improvement brought about by dollarisation in 2008, and any meaningful rebound growth has yet to materialise. The Financial Times reports that FDI from China, South Africa and the UK has fallen drastically, with Chinese investment alone decreasing from \$1bn in 2011 to \$667m in 2012. There has been an even greater reduction in 2013 with FDI reported to be down by 76 per cent in the first quarter to approximately \$36m.

The best case scenario is that the election will result in a clearer picture of future policy direction, and this could help build confidence and accelerate growth for the country. However, economic growth decelerated from 10.6% in 2011 to 4.4% in 2012, reflecting the inherent political and economic uncertainties, a high debt overhang and the deteriorating infrastructure. Growth targets remain at 5 per cent for 2013, having been revised downwards earlier in the year. Meanwhile, the mining and agriculture sectors have been expanding: the mining sector is increasing in importance, with output expected to grow by 17% in 2013 as a result of continued investment in diamonds, platinum and gold. Agriculture has regained a small fraction of its former lustre and output is expected to grow at 5%, driven by the recovery in tobacco.

### ANGOLA

Angola's economy is now rebounding, with GDP expanding by 8.1 percent in 2012. GDP growth of 8.2% was projected by the IMF for 2013. Growth is expected to be boosted by an expansionary fiscal plan as the government announced an increase in spending with a deficit of 3.2% of GDP for the 2013 budget. This comes after an estimated surplus of around 9% in 2012 and an 11.3% surplus in 2011. Monetary policy is expected to remain neutral, with the Central Bank rate currently at 10%.

From 2009 to mid-2011 GDP growth stagnated due to a decline in global oil prices and a slowdown in domestic oil production. The resulting drop in oil revenues, the primary source of government revenue, impacted the non-oil economy through diminished private consumption, cuts to public spending and the accumulation of substantial arrears to domestic firms, particularly in the construction sector. By 2012, however, a combination of high oil prices and rising production

## MARKET OVERVIEWS

18

boosted GDP growth and generated a large increase in fiscal revenues, enabling the government to clear its arrears and increase public expenditures. This is continuing into 2013 with oil production and prices remaining robust.

Among the most salient features of the Angolan economy are its low levels of investment, both public and private. Angola's total investment rate is currently about 13% of GDP (of which 10% is public), well below the three-year average for Sub-Saharan Africa of 24%. As mentioned, the authorities have taken steps to increase public investment and the 2013 budget calls for a steep increase of 60% in capital expenditures. This expanded public investment program is financing critical infrastructure projects.

The public investment program, together with a surge in oil-related FDI, pushed the growth in the construction sector to a remarkable 21.8% in 2012, up from an already strong growth rate of 12% in 2011. The commercial sector is estimated to have grown by 9.3% in 2012, with consumer demand driving robust commercial activity. Rising per capita incomes have encouraged international retailers to enter the domestic market, generating additional construction activity.

Growth in agriculture and manufacturing has been fairly strong in recent years, but both sectors continue to perform below their potential. Agriculture, which employs two-thirds of the Angolan labor force, grew by a relatively robust 7.3% in 2012, but remained below its 10-year average rate of 13%. In 2012 drought conditions reduced yields for many staple crops, including maize. Meanwhile, the growth of the manufacturing sector was very modest at an estimated 1.3%.

## MOZAMBIQUE

Mozambique continues to attract major international investors. The economy's recent strong growth has been broad-based and led by the start-up of coal production and exports last year, which yielded 5m tons. Despite recent rumours that Rio Tinto may be selling part or all of its coal operations, a weakening coal price and inadequate infrastructure, coal production in 2013 is projected to expand by 24% and real GDP is projected to grow by around 7% through 2013. Fitch Ratings has upgraded Mozambique's long-term credit rating in foreign currency from B to B+, while maintaining the national currency credit rating at B+. The agency maintained the country's outlook as "stable", announcing that the upgrade reflects Mozambique's recent track record in following a prudent economic policy, particularly regarding monetary and fiscal policies, resulting in a lower inflation rate and a high growth rate.

There has been some recent political violence between the governing party, Frelimo, and the main opposition party, Renamo. The latter have threatened to disrupt the Sena rail line and paralyse road links, both of which are used by Rio Tinto and Vale to export coal via the Beira port. Around 10 government soldiers and four Renamo militiamen have died in clashes. Whilst these are significant incidents, Renamo are not yet considered to pose a major threat to national stability.

Mozambique now has the second largest proven gas reserves of any sub-Saharan African country, after Nigeria, and ahead of Angola and Equatorial Guinea, the region's two other LNG producers. When applying ENH's (the state owned exploration company) current estimates, the exploratory wells have uncovered gross volumes approaching 250 tcf, enough to meet global demand for two years. Crucially, the Mozambican deposits are very well placed for export across the Indian Ocean to Asia. Hence the increasing number of Asian state-backed companies purchasing strategic stakes in various blocks. ONGC, the Indian state-owned oil and gas producer, now has a 10% stake in the Anadarko block; CNPC, the Chinese equivalent, now has a 20% stake in the ENI block; whilst Inpex, a Japanese corporation, now have a 25% stake in the Statoil blocks. Anadarko is in talks with both Shell and ExxonMobil regarding the sale of a 10% stake in their block.

Statoil and Tullow Oil have completed a test well that proved unsuccessful in finding oil in Mozambique. Despite this dry well, the partners are planning further test wells in their southern blocks 3 & 6. ENI are now also planning a new oil-specific expedition by the end of this year.