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eally big opportunity': Inside PSG's $46m Zambian farming deal

have always said that there are enough investment opportunities in South Africa at much lower risk. However, we have realised that we ot afford to miss out on the vast opportunities that [the rest of] Africa present."

ote Jannie Mouton, chairman of South Africa-based agricultural investment company Zeder, in its most recent annual report.

is the agribusiness arm of JSE-listed investment firm PSG. Up until recently, Zeder's investments were mainly focused on South Africa, with stakes in a variety of ltural, food, beverages and food processing businesses.

expected meeting at an investment conference nearly 18 months ago, however, was the catalyst for Zeder's foray into the rest of the continent. This was where Meyer, an analyst at Zeder responsible for evaluating new investments, met Neil Crowder, founder of Chayton, which ran a large-scale commercial farming tion in Zambia.

earing Crowder's presentation and chatting to him afterwards, Meyer started to become interested in Chayton's business.

0, Chayton, through its subsidiary Chobe Agrivision, acquired two existing commercial farms and a contract farming business in the Mkushi farm block in the ry's Central province. To date, it has acquired three existing commercial farms totaling just over 4,000 hectares with 1,800 hectares being farmed and 1,500 res under irrigation. Crops cultivated include soya beans and wheat.

on made its first investment after Crowder was approached by two Zimbabwean farmers who lost their farms due to the Mugabe government's land reforms. After their land, the one farmer emigrated to Australia while the other moved to South Africa. Some years later their paths crossed again. They went on a road show to nd to secure funding for an agriculture project in Africa. That is where they met Chayton's Crowder who then started raising funds and bought the first piece of land nbia.

gh Zeder was interested to buy a stake in Chayton, the problem was that it was a private equity fund at the time. Zeder doesn't like to invest in funds. "Funds have ed life span. Investors commit their money, the fund managers invest it for a certain number of years, and then need to exit the investment in order to pay the ors back their money. We prefer a company structure which is ongoing and not committed to a certain timeframe," says Meyer.

ler also wasn't interested in transforming Chayton from a fund into a company. Meyer and Crowder, however, kept in touch and updated one another on their ctive companies' activities.

e went on Chayton began to soften to the idea of collapsing the fund into a company and receiving investment from Zeder.

ye-opening visit

convinced all the Zeder executives to get on a plane for an exploratory visit to Chayton's farm. "Before the trip everyone was relatively sceptical," says Meyer.

roup spent three days at the farm – a visit that, according to Meyer, opened their eyes. "We were very impressed with what we saw. Many people have this picture of as the dark continent with no infrastructure, crime and terrorism, and bad leadership. What we found surprised us."

he visit Zeder pushed hard to make the deal happen. "We thought that this was really a big opportunity. We worked through a variety of financial models and, taking ccount all the risks and price volatility, felt that the investment could generate a good return."

ch this year Zeder bought a 96% stake in Chayton for $46.7 million ($37 million of this is to be released in stages to take advantage of specific opportunities).

ng with the risks

is often a perception among foreigners that an investment in Africa comes with high political risk. So why does Zeder feel comfortable with Zambia as an investment nation? Meyer says the company is encouraged by Zambia's relative peace and security as well as its political stability.

ver, if something goes wrong, the investment is covered by political risk insurance from the World Bank's Multilateral Investment Guarantee Agency (MIGA). "In the of any trouble, we are covered for all the capital that we invest in Zambia. For us who work with shareholders' money it is incredibly important to cover our risks as far ssible."

ition, Chayton has also signed an Investment Promotion and Protection Agreement with the Zambian government. Among various things outlined in the document, vs Chayton to continue to export commodities in the event of a closure of the country's borders.

ugh this investment looks very good on paper, we are not naïve to think that there aren't any risks," concedes Meyer.

er positive is the Zambian authorities' strong focus on agribusiness. The corporate tax rate for agribusiness companies was recently reduced. "The government es the importance to develop industries outside of the mining sector."

on's land is part of a designated farming block that was bought by the government from local chiefs. To attract investment the government has supplied tructure such as roads and electricity. The land can be acquired on a 99 year lease. Meyer says there are currently around 90 farmers in the area from countries s the world such as Zimbabwe, South Africa, the US, Australia and Russia.

ving the business

on's farm in Zambia will primarily cater for local demand. "We haven't built our model on exports. Local demand is growing so strong that for the immediate future we ot even considering exports," explains Meyer.

ver, if necessary, Zambia is bordered by eight countries, all of whom are net food importers.

's investment is also not a play on land prices. Meyer even suggests that there might be a possible bubble in land prices. "We value the business on the cash flow can generate, and not necessary the value of the land. We don't think we should put our hope on land. We are not in Zambia because we want land."

says that it is the company's vision to acquire more land in Zambia, and eventually have around 10,000 hectares under cultivation.

g business in Africa – not moonshine and roses

says that many South African companies are not aware of the opportunities in other African countries. He says companies from countries such as India, China and e have been compelled to look at alternative destinations to invest their money. Most of these investors have a long-term strategy in Africa. "They see Africa's o-trends: population growth, urbanisation, demand for food. These investors have a much more long-term outlook than South Africans."

vay many South African companies haven't been forced to look at opportunities in the rest of the continent. There are still good investment opportunities in South although they are getting fewer."

ver, despite the potential that the continent offers, Meyer reckons that doing business in Africa is over-romanticised. "It sounds very nice to say, 'I'm going to do ess in Africa, I'm going to farm in Africa', but the practical implications are different."

ugh Chayton's farming block comprises a community of farmers with a country club offering golf, tennis and cricket facilities, Meyer says the life of a foreign farmer in can often be very isolated. This can also have its toll on marriages. "It puts pressure on relationships, and after a while the guys go back home."

tes that Chayton's challenge in the future will be management. "If we want to build a big business, we need the right management and we need to make it attractive em to go and work in Zambia. It will cost us more in terms of salaries to convince the good guys to relocate, but it makes sense when one looks at the possible s."

says the current two Zimbabwean managers are critical for the success of the business. But what will happen if they leave? "What makes us comfortable is that re also shareholders in the business. Wherever we invest we always try to incentivise management to think like shareholders of the business."

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lture is a long-term investment – especially in Africa where things tend to happen at a slower pace. The Zeder team is well aware of this. Says Meyer, "We haven't ade it in Africa, but hopefully we will."

HAYTON, NEIL CROWDER, PSG, WILLEM MEYER, ZEDER

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