

2020 a slow year for dealmaking in Africa, but post-pandemic opportunities look promising - Part 1

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Dealmaking activity in sub-Saharan Africa (SSA) dropped in the second half of 2020 (H2 2020), when compared to the second half of 2019 (H2 2019) and year-on-year, deals were also down in both volume and value compared to 2019. As Africa gears up for post-pandemic recovery in 2021, the opportunities presented by free trade across the continent, foreign investment interest due to new partnerships and trade relationships, as well as the post-pandemic focus on technology, healthcare and renewable energy, will be key factors in attracting valuable mergers and acquisition (M&A) activity to the region.



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Sub-Saharan Africa

According to Baker McKenzie's analysis of Refinitiv data, M&A transactions dropped in SSA in H2 2020, down 4% compared to H2 2019, with 329 deals in the period. Deal value fell by 17% to \$8.9 billion in the second half of 2020, compared to the same period in 2019. For the full year 2020, transactions dropped by 8%, with 625 deals in 2020, and deal value dropped by 33%, with deals valued at \$17.4 billion in total for 2020.

Cross-border activity in SSA remained much the same in the second half of 2020, with 210 deals in H2 2020 compared to 209 in H2 2019. This was due to an uptick in outbound interregional deals, which were up 28% year-on-year. The total value of cross-border M&A deals in the second half of 2020, however, dropped by 21% to \$6.5 billion when compared to H2 2019. For the full year 2020 (FY 2020), the number of cross-border deals dropped by 8% and deal value by 27% compared to 2019. United States-based Mylan NV's acquisition of the Aspen Pharmacare-Thrombosis business in South Africa for \$759 million was the biggest cross-border deal in the period.

Companies in the materials sector remained the top target for investors in sub-Saharan Africa, with 29 deals in H2 2020, though the biggest value deals came from the energy and power sector, with deals amounting to \$1.7 billion in H2 2020.

The United Kingdom was the most active investor in the SSA region for the second straight year, with 29 deals announced in the second half of 2020. There were also 29 deals from the UK for the full year 2020.

For outbound transactions from SSA, the primary target companies for African investors were in the industrial sector, which announced seven deals for H2 2020 and 17 in total for the full year. The high technology sector announced 12 deals in H2 2020, and 17 deals altogether in FY 2020. Further, India was the primary target for African outbound investors in the region, with 11 deals in H2 2020 and 20 for the full year 2020.



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Analysis

While dealmaking has slowed across Africa, all is not lost and there are still plenty of opportunities to benefit from good deals on the continent. For the next while, we believe that deal activity across Africa in general will mostly be in the form of take-private transactions, distressed M&A opportunities, restructurings, disposals; and corporates looking for investment opportunities in offshore markets.

Usually viable businesses are experiencing continued challenges due to the pandemic, leading them to turn to M&A as a way to raise funds. However, the lack of available capital and acquisition finance, as well as the difficulty in pricing deals in an uncertain market, are proving to be big issues for investors and this is slowing down the pace of dealmaking. For those who have capital, there are plenty of bargains to be had in Africa in the next few years, particularly in those sectors that have been badly affected by the pandemic, as well as in those industries where demand has dramatically increased.

Sectors in SSA that have clearly flourished during the pandemic include healthcare, technology media and telecommunications (TMT) and renewable energy, with the materials and the financial sectors also attracting interest. Industries such as aviation, retail, oil and gas, and tourism/hospitality will take longer to recover and are more likely to result in distressed M&A activity.

The good news is that the start of trading for numerous member states of the African Continental Free Trade Area (AfCFTA) is expected to provide a huge boost in investment in post-pandemic Africa. The AfCFTA has done a great deal to bolster investor interest in the region and dealmakers are taking notice of the agreement's first movers. After Brexit, big African investors in the United Kingdom and countries in the European Union will continue to target African sectors, hoping to capitalise on new economic partnership agreements, and the launch of free trade in Africa. Investors from the United States will also continue to be strong M&A players in key African countries, with a Biden administration expected to further encourage investment and trade between the US and African countries.

We can also expect to see heightened scrutiny of environmental, social and governance issues, with companies that have sound ESG strategies leading the pack in terms of investment and growth on the continent.

In [Part 2](#) of this three-part series, we'll examine M&A activity in South Africa, Ethiopia and Ghana; while [Part 3](#) will look at data from Kenya, Mozambique and Nigeria.

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