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Angola: building on oil wealth

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Angola is using its vast oil reserves wisely to diversify and strengthen its economy

SA COMPANIES are flocking to Angola - and for good reason, it appears from a study by Eaglestone, a Lisbon-headquartered investment bank focused on sub-Saharan Africa.

"Angola is well on track to fulfilling its promise of being one of sub-Saharan Africa's big economic success stories," says Tiago Dionisio, an Eaglestone analyst and an author of the extensive study.

"Angola has been successful in using the windfall from high oil prices to diversify its economy," says Dionisio. Under Angola's national development plan the objective is to double the number of investment projects each year between 2013 and 2017, he says.

Economic diversification, says Dionisio, is underpinning one of the Angolan economy's biggest strengths and attractions for foreign investors: the expansion of its middle class.

Angola's GDP per capita will grow from US$5700 in 2012 to over $6000 in 2014, predicts Dionisio. This rise, he says, will "cement its [Angola's] position as one of the few middle-income sub-Saharan economies". SA's GDP per capita was $11281 in 2012, reports the International Monetary Fund.

Economic diversification and expansion of Angola's middle class are also playing crucial roles in reducing the country's heavy dependence on oil, of which it is Africa's second-largest producer. Though oil still dominates Angola's economy, its importance is declining.

Oil's contribution to Angola's GDP fell from 56% in 2002 to 46% in 2012 and will continue to fall, says Dionisio. In 2014, he predicts, Angola's oil sector will grow by 4,7% while nonoil sectors such as retail, construction, banking and communications will expand by 8,3%. Overall, Eaglestone believes Angola's GDP will grow by 6,3% in 2014, up from 5,6% in 2013. In the longer term the firm puts the country's sustainable annual GDP growth rate at 5%-7%.

There are also other factors at work which make Angola less vulnerable to a sharp fall in the oil price, says Dionisio. "Angola has a positive fiscal [national budget] balance and low public debt," he says. Foreign reserves, he adds, are also at a "more comfortable" level, having risen from $19,5bn in 2010 to over $37bn in 2013. SA's foreign reserves stood at $50bn at the end of September.

The star of the Angolan nonoil growth story is retail, which has increased its contribution to GDP from 15% in 2002 to 20% in 2012, second only to oil. Eaglestone estimates Angola's GDP to have been $124bn in 2013, which puts the value of retail sales at about $25bn. This is equal to about a third of SA's total retail sales in 2012.

Among SA retailers, Shoprite was the first to grasp the potential of the Angolan growth story, opening its first supermarket in Luanda, Angola's capital, in 2003. This was just a year after the country's three-decade civil war ended.

With 17 Shoprite and USave stores now open, Angola is already Shoprite's biggest non-SA sales generator. It is just the start. Shoprite has a further 43 Angolan stores in the pipeline.

In December 2013 Spar took the plunge into Angola with the opening of a store in Luanda in partnership with a local player. Massmart is set to follow this year with one or more Game stores and clothing retailer The Foschini Group has selected Angola as a key target in its aggressive African expansion strategy.

But SA retailers will not have it all their own way. Angola is attracting growing interest from European retailers. Among them, says Dionisio, is Portugal's largest retail group, Sonae, which will invest $100m in the establishment of at least four hypermarkets in Luanda by 2015.

Local Angolan companies are also making their mark in retail, says Dionisio. They include Score Distribuição, which is to open 37 supermarkets in Luanda in partnership with Jerónimo Martins, a Portuguese food retail group with 2800 stores in Europe and Colombia.

From a competition perspective Angola's retail sector appears to be following the lead set by the country's banking sector, which has in the past 10 years seen the number of banks grow from nine to 23. Standard Bank, which entered Angola in 2009, is the only SA participant.

Seemingly justifying the sector's rapid expansion, Dionisio says Angolan banks' net interest income growth averaged 32,6% between 2009 and 2012. Growth in net profits was 23,8% in the same period.

Despite its growth attraction, Angola is not for the faint-hearted.

"The country faces tremendous challenges in terms of improving its infrastructure, human capital, business climate and the social conditions of its population," cautions Dionisio.

Underscoring this, the World Bank's 2014 "Doing Business" survey ranks Angola 179th out of 189 countries for the overall ease of doing business. Among major obstacles identified by the World Bank are opening a business, getting electricity and enforcing contracts. In these three key areas Angola ranked 178th, 170th and 187th, respectively.

Angola is also one of the most expensive countries to operate in, notes Dionisio. Indeed it is. Luanda is the second most costly city in the world while Johannesburg ranks 154th, according to Mercer.

But despite its challenges, Angola's overriding attraction will no doubt remain its position as one of the five fastest-growing economies in the world.

Luanda skyline. Picture: GETTY IMAGES/AFP