

agriVie

AFRICA AGRIBUSINESS INVESTMENT FUND



AGRIBUSINESS PERSPECTIVE # 3

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GROWING MONEY ON TREES?

More or less 60% of wood and wood products are used in construction, primarily residential while the rest of the global demand mainly comes from the packaging, furniture and paper industries. It is understandable that the price of harvested timber closely tracks the state of the housing market. However, the price of timberlands have remained relatively stable and as shown low correlation with other asset classes.

Before the global financial crisis of 2008/9, returns from timberlands have averaged over 15% in the preceding 15 years. In 2009, average returns of more than 10% were registered. Forestry returns happen in three ways:

- 1) The biological growth of the trees – in periods of low timber value, harvesting values reduce and supply remains tight.
- 2) Timber sales – with construction, furniture and packaging being the three main wood consumers. Biofuels and biomass energy generators as well as the paper industry follows in terms of demand significance. In Sub-Saharan Africa, the much needed expansion of the electricity grid drives material demand for treated poles.
- 3) The value growth of the land on which the trees are planted.

The market for carbon credits is expected to come into its own in future – plantation managers will be able to participate in carbon trading due to the sink properties of woodland.

In the past, governments, individuals as well as industrial end users have been the plantation owners. Now, however, there is increasing interest from institutional owners. In developed markets, timberland investors can invest directly into plantations through Timber Investment Management Organisations (TIMO's) but their capital typically remains committed for the 20-25 year duration of the investment timeline. Timber funds offer more liquidity but less direct control of the timberland.

While plantation forestry is a relatively recent if not absent concept in most parts of Sub-Saharan Africa, commercial logging has been around for much longer. If done under the codes of the international Forestry Stewardship Council (FSC), it can be sustainable and actually lead to the rehabilitation of deforested areas while rewarding investors and owners richly. However, policing actual compliance with the FSC codes is difficult and in many instances forests are simply raided of their often exotic timber species. Such activities as well as unchecked deforestation driven by community demand for agricultural land, are putting vast forest reserves such as in the Congo basin at risk.

Plantation forestry itself has to be conducted in a manner sensitive to local ecosystems. Simple replacement of indigenous forests with commercial species such as eucalyptus has put major water catchment areas at risk already.

Forestry and timber related investments are increasingly catching attention among investors in the agribusiness sector of Sub-Saharan Africa. There is a structural deficit in the supply of wood and wood products. Imminent infrastructure development in and around Africa's growing cities imply massive demand for basic wood products. Timber is an important asset to keep an eye on.

Adapted from 'Agrisar', Sarasin & Partners' Newsletter on investments in listed agricultural entities, Sarasin Bank, Geneva, April 2009.