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## MONTHLY SHAREHOLDER LETTER // **October 2011**

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- **ADC raises shareholding in BancABC from 20% to 23.1% - further increase planned**
  - **Substantial growth but also a number of challenges at the portfolio level**
  - **ADC stock price up substantially in defiance of market trends**
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*Dear shareholders, business partners and friends of ADC,*

Over the past few weeks, you too have doubtless been very concerned by the international debt crisis and the volatility currently prevailing in the financial markets. Even so, I hope that you will not lose sight of us and the African investment story, which is increasingly growing in importance, and perhaps even consider it as an interesting investment alternative in a region which unlike the Western world is experiencing sustained growth.

The importance of Africa as an investment target was underscored once more at the end of September during the meeting of the finance ministers and central bank governors at the Annual Meetings of the IMF and World Bank, which ADC's management also attended. Despite the very pessimistic underlying mood concerning the global economy, many African finance ministers were inundated with investor inquiries. Thus, the delegation sent by oil-rich South Sudan, the youngest African nation, was doubtless one of the most sought-after conference participants, hurrying from one investor meeting to the next. We are also already very active in South Sudan, where we are paving the way for corresponding investments.

ADC's stock price is also benefiting from heightened interest in Africa. Our steady work as well as your patience and confidence in us are paying off step by step: Over the past few weeks, ADC stock has climbed from the low of EUR 5.60 which it hit in mid-August to a current price of around EUR 9.00, a gain of a good 60%. However, it is still trading below the issue price of EUR 11.00 following last December's IPO despite the fact that there has been substantial growth in ADC's enterprise value since the flotation. Accordingly, the stock still harbours considerable upside potential at its current price. Analysts such as DZ Bank have set price targets of around EUR 18.00 on the strength of the region's and ADC's investments stable development.

On the operational level, we are currently concentrating on implementing a broad-based new software solution for ADC. The main purpose is to further optimise risk management, simplify internal processes and render portfolio management more efficient with the ultimate aim of allocating even more team resources to the operational performance of the portfolio in tandem with strict cost control. At this stage, we assume that the system will be put into operation in the fourth quarter.



## PERFORMANCE OF OUR PORTFOLIO COMPANIES

- In our last shareholder letter, I was able to report to you on the superb performance of **BancABC**, our only listed investment to date. ADC has now acquired an additional 3.4% stake via an over-the-counter transaction at an average price of USD 0.81 per share, amounting to an additional investment of approximately EUR 3.0 million. Via its increased shareholding ADC will further strengthen its strategic influence on the regional banking group active in both commercial and retail banking with operations in five frontier markets in sub-Saharan Africa, namely Botswana, Mozambique, Tanzania, Zambia and Zimbabwe. ADC initially invested EUR 9.7 million in the banking group in March of this year at an average price of USD 0.45 per share which has since increased by more than 84%, reaching a price of USD 0.83 per share on 30 September 2011. ADC has already received a dividend of EUR 262k from its shareholding in the bank and a further interim gross dividend for first half of 2011 was announced by BancABC due to its strong performance in the first half of 2011. BancABC's banking subsidiaries reported excellent performance and substantial growth. The company's net operating profit increased by 48% to USD 10.2 million and pre-tax profits by 84% to USD 9.6 million. Consolidated total assets surpassed the USD 1 billion mark for the first time in the history of the banking group and the outlook given by BancABC's management points to results that are significantly above the prior year. The additional investment was a unique opportunity for increasing our shareholding in BancABC via our network at an interesting price. As we expect the company to be well positioned for significant growth in the short to medium term, we see favorable potential for further gains in the share price. The roll-out of BancABC in the fast growing SME and retail banking sector is proceeding exceptionally well. Retail banking operations in Zimbabwe are already profitable on the back of a fast growing market. BancABC is well-prepared to lower its cost of funding and just recently secured a revolving credit line of USD 50 million from the African Export-Import Bank. Furthermore, we regard the strategic value of our investment as exceptionally worthwhile because we have already been able to harness further synergistic benefits within the BancABC network.
- **BANGE** (Banco Nacional de Guinea Ecuatorial, ADC share: 25% plus option for a further 25.1%) also remains on a growth trajectory. However, as forex business has fallen short of the forecast to date, we have had to step up our efforts to gain major national and international corporate clients. In connection with growth in lending business, the non-performing loans continue to pose the greatest challenge for our management. Here as well we are in the process of extending both risk and loans management to bring it into line with the requirements of the bank's expanding business. This month, further bank experts will join the management team in Malabo to step up business growth and implementation of the measures referred to above.



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- **SIMTEL (RSwitch)** (ADC share: 70%), the national payment switch in Rwanda, is continuing to grow swiftly. In accordance with ADC's plans for the establishment of a regional switch, management is currently additionally engaged in negotiations for partnerships with regional payment service providers in neighbouring countries in Eastern Africa in order to harness greater economies of scale and to be able to provide RSwitch products and services to a greater customer base. By way of comparison, whereas the Rwandan domestic market comprises roughly 9 million inhabitants and around 1 million potential customers, roughly 120 million people, including at least 20 million potential customers, live in Eastern Africa.
- **iVeri** (ADC share: 49%), our portfolio company for electronic payments in South Africa is starting up a new business line called evriPay. This provides even smaller merchants in South Africa and, later on, throughout all of sub-Saharan Africa, with access to electronic payments in the form of international credit and customer cards. In this way, the continent will be integrated more closely in the international payment system step by step. This new business offers iVeri enormous market potential.
- **Ecobank Zimbabwe** (ADC share: 13.5%) is continuing to outpace the competition. This month sees the opening of a new flagship branch in the heart of Harare, which will be setting new standards. Fresh equity is being issued in the near future to broaden the scope for participation by local investors in connection with indiginization requirements. ADC is currently still negotiating with management and the other strategic shareholders on the price of the fresh equity (which is to be substantially higher than the price level at the end of 2010) and the provision of Tier 2 capital by the Ecobank Group. Accordingly, the value of this investment is very likely to be enhanced by the end of the year.
- **RHEAL Insurance** (ADC share: 25.1%), our medical insurance company in Kenya, is unfortunately facing challenges of an unexpected severity despite its continued favourable business performance. These comprise the current sharp depreciation of the Kenyan shilling against the Euro and the US-Dollar as well as rising inflation in this country. Management is currently making preparations to convert the customer contracts to shield itself from the consequences of any further deterioration in the shilling. If the macroeconomic situation in Kenya fails to stabilise, it is possible that RHEAL will fall short of its ambitious full-year targets by around 10% but still achieve significant growth over 2010. Although we generally attempt to minimize our portfolio companies' local-currency exposure and to handle business/contracts in euro and the US dollar as a general principle, this is not always feasible or not possible quickly enough, as Kenya is currently showing.



## DEAL FLOW

As reported in the last shareholder letter, we are continuing to work on three very interesting transactions. Accordingly, we expect to be able to announce at least one new investment in one of the most important banking markets in Western Africa this month.

## FINANCIAL OUTLOOK

Despite the challenges in Kenya and Equatorial Guinea, we are still well on track to meeting or even exceeding 2010 profits in 2011. We expect to be able to report a profit for the 3rd quarter of 2011.

## CONFERENCES AND EVENTS

Our investor relations team in Frankfurt are still actively participating in conferences and maintaining ongoing contact with investors. Among other things, we attended the Standard Bank Africa Equities Conference on the side-lines of the IMF/World Bank Meeting as well as other conferences in Nairobi and London. If you have any questions on ADC, please feel free to contact my colleague Olaf Meier ([meier@african-development.com](mailto:meier@african-development.com)).

Sincerely Yours,

Dirk Harbecke  
Chief Executive Officer

