

Sub Saharan Africa Financial Services Report, & Cytonn Weekly #46/2017

Private Equity

Pan-African ICT private equity firm Convergence Partners, through its second fund Convergence Partners Communications Infrastructure Fund, has bought a significant minority stake in ESET East Africa, a subsidiary of ESET Global. ESET East Africa is a regional technology company focused on offering cybersecurity solutions. Convergence has previously invested in other technology firms such as 4 Di capital, a venture capital firm offering seed capital for technology firms, and SeaCom, a submarine and terrestrial fibre bandwidth provider through its USD 85.0 mn first fund and in other 7 technology firms across Africa through its USD 200.0 mn second fund. The acquisition gives Convergence Partners an opportunity for growth and expansion in the region. For ESET, the partnership will be advantageous as (i) it will support the firm's expansion strategy in the East African region, having just opened its first office in Kenya in 2016, and (ii) it gives the firm a chance to ride on Convergence Partners' distribution network across Africa. The continued interest by investors in technology-driven companies is catalysed by the rising need for tech-products as more businesses seek to enhance efficiency and reduce costs.

South Africa's pension fund, Public Investment Corporation (PIC), has raised its stake in electricity generator KenGen to 10.0%, from the 5.0% held after its initial purchase in February 2017 through the purchase of an additional 351 mn shares. At current market price, PIC's current investment in KenGen is worth Kshs 6.5 bn. PIC's first investment in KenGen was in February this year, where the fund took up the 351.2 mn shares that were unsubscribed for during KenGen's June 2016 rights issue, at a unit price of Kshs 6.55 per share, bringing their initial investment to Kshs 2.3 bn. The investment makes PIC the second largest investor in KenGen after The National Treasury who currently owns 70.0% of the company, down from the 73.9% prior to PIC's initial investment. The aggressive purchase by PIC during the year has lifted KenGen's stock price to Kshs 8.6 per share, from lows of Kshs 5.5 per share at the beginning of the year, a 56.4% growth in price. PIC's investment is seen as part of its move to seek growth and geographical diversification outside South Africa, where it holds about 12.5% of Johannesburg Stock Exchange market capitalization through its investment in over 30 listed firms.

On the fundraising front, Amethis Finance, a Paris-based company focused on investing in debt and equity in the FMCG, financial services, healthcare and oil and gas sectors in Africa, is seeking to raise Kshs 36.0 bn, for its Amethis Fund II. The fund will be invested in mid-market companies in financial institutions, fast-moving consumer goods, healthcare, agribusiness, education, IT and telecommunications sectors in 11 African countries including Kenya. The World Bank's, International Finance Corporation (IFC), has made a proposition of Kshs 1.8 bn in equity investment to the fund. Amethis, through its first fund, the USD 324.4 mn Amethis Fund I, has invested in 12 equity deals including a USD 10.5 mn investment in Kenya's Chase Bank in 2013 and an undisclosed amount in Kenafric Industries in February this year. The increasing fundraising activity by private equity firms indicates a positive outlook by investors in the Sub-Saharan Africa private equity space, motivated by the continued growth in the sector.

Private equity investments in Africa remains robust as evidenced by the growing number of successful exits. The increasing investor interest is attributed to (i) rapid urbanization, a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.

Liason House, StateHouse Avenue

The Chancery, Valley Road

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