

# Cytonn Annual Markets Review - 2017

## Private Equity

Private equity activity was high during the year. We highlight the major Private Equity deals, Mergers and Acquisition, Quoted Private Equity and fundraising deals in the region this year under the Financial Services, Hospitality, Education, Real Estate and Technology Sectors;

### Financial Services Sector

#### Entry:

- The International Finance Corporation (IFC) acquired a 10.4% stake in insurance firm Britam Holdings. The transaction saw IFC inject Kshs 3.6 bn for an allocation of an additional 224.2 mn ordinary shares bringing the total to 2.2 bn outstanding shares, at a subscription price of Kshs 15.9 per share, a 58.5% premium to the previous closing price of Kshs 10.0 per share. The transaction was valued at P/B of 1.5x. The acquisition involved IFC indirectly acquiring 5.1% stake in Housing Finance Group, in which Britam owns a 48.8% stake. For more information on this, see our note **International Finance Corporation invests in Britam**
- Africinvest III, a special purpose vehicle (SPV) managed by Africinvest Capital Partners Management II, acquired a 14.3% equity stake in Britam Holdings Ltd. The transaction saw Africinvest III inject Kshs 5.7 bn for an allocation of 360.9 mn new ordinary shares at a subscription price of Kshs 15.9 per share, a 6.0% premium to the then market price of Kshs 15.0 per share. The transaction was valued at P/B of 1.4x For more information on this, see our note **Africinvest III invests in Britam**
- Diamond Trust Bank acquired 100% of Habib Bank Limited (HBL) Kenya through a share swap agreement, with the issuance of 13.3 mn new DTB ordinary shares to HBL, at a price per share of Kshs 137.4, amounting to Kshs 1.8 bn. The transaction was valued at a P/B of 0.8x. For more information on this, see our note **Diamond Trust Bank Kenya Limited Acquires Habib Bank Limited Kenya**
- South Africa's insurance group Sanlam Group, through its subsidiary Sanlam Emerging Markets acquired a 75.0% stake in PineBridge Investments East Africa Limited in Kenya for an undisclosed amount. Following the acquisition, PineBridge was rebranded to Sanlam Investments East Africa Limited.
- Sanlam Kenya acquired an additional 12.0% stake in Gateway Insurance for Kshs 213.7 mn, bringing its total investment into the firm to Kshs 914.3 mn. It first acquired a 51.0% stake in the firm in 2015 for Kshs 561.0 mn, effectively valuing it at Kshs 1.8 bn, and later raised its stake in the firm to 56.0% following an additional injection of Kshs 139.6 mn. The transaction was valued at a P/B of 1.1x.
- Capitalworks, a Johannesburg-based private equity firm acquired the African operations of the UK-based multinational firm, Aon for an undisclosed amount. The transaction effectively saw Aon sub-Saharan Africa rebrand to Minet Group.

#### Exits:

- The government of Rwanda exited I&M Bank, Rwanda, through an IPO, where it held 99.0 mn shares representing a 19.8% stake. The shares were offered at a price of USD 0.1085 per share. The IPO was oversubscribed, as investors applied for 206,893,000 shares, representing a 209%

subscription rate.

- Barclays Plc, through a series of transactions has reduced their stake in Barclays Africa from the initial 62.3% stake to a current holding of 14.8%. The share sale began in May 2016, when Barclays Plc. sold 12.2% of its shares to bring its stake in Barclays Africa to 50.1%. In May 2017, Barclays Plc sold 26.7% of shares in Barclays Africa, further reducing their shareholding to 23.4%. Barclays Plc further contributed amounts equivalent to 1.5% of its share capital towards a broad-based black economic empowerment scheme by Barclays Africa. The last share sale of 7.0% in December 2017 saw Barclays Plc's stake in Barclays Africa stand at 14.8%, from where they will not be looking to divest further shareholding.

We expect that Investors will continue to show interest in the financial service sector, motivated by attractive valuations, coupled with increased capital requirements across the sector.

### **Technology Sector**

- Kenyan IT multinational Craft Silicon acquired an undisclosed stake in restaurants listing portal EatOut for Kshs 51.5 mn (USD 0.5 mn). This was the second major backing of a local tech company by Craft Silicon. Craft Silicon is a founder-shareholder of Little, a cab hailing mobile application service, which is also backed by local telco giant Safaricom.
- Vodacom Tanzania, floated 560,000,100 new ordinary shares at Tshs 850 (USD 0.4), representing a 25.0% stake of the company post-listing. The IPO was fully subscribed after extending the deadline twice and opening the IPO to foreign investors. The IPO raised the target Tshs 476.0 bn (USD213.0 mn). Vodacom Tanzania was initially owned by Vodacom Group Limited and Mirambo Limited, who owned a 65% and 35% stake, respectively. Post listing, Vodacom Group Limited, Mirambo Limited and the public now hold, 48.7%, 26.2% and 25.0% stake, respectively. The share is currently trading at Tshs 850, having hit a high of Tshs 900 and a low of Tshs 750 since its listing in August 2017

### **Fundraising:**

- Direct Pay Online received USD 5.0 mn (Kshs 519.0 mn) funding from Apis Partners, a London based private equity firm that focuses on financial services and growth market investment,
- Sendy, an on-mobile logistics company has received Kshs 207.6 mn (USD 2.0 mn) in equity investment from Dutch impact fund DOB Equity and CFAO Group, a multinational firm that is a fully owned subsidiary of Toyota Tsusho Corporation, for an undisclosed equity stake,
- Liquid Telecom raised Kshs 72.6 bn (USD 700.0 mn) through a bond issue with 8.5% interest per annum. In November, the firm floated a tap sale of the same bond and raised an additional Kshs 18.7 bn (USD 180.0 mn). The company, which has a presence in 13 African countries including Kenya, intends to use the funds to repay a Kshs 14.9 bn (USD 145 mn) loan.

The technology sector in Sub-Saharan Africa continues to attract investors whose interest is catalyzed by the rising need for tech products as more businesses seek to enhance efficiency and reduce costs. The rising number of tech hubs in Africa, which support the growth of tech startups by providing mentorship has also provided a platform through which investors can easily identify opportunities to invest in, with the successful capital raises an indication of investor appetite for businesses in the technology sector and a positive outlook on the future performance.

### **Hospitality Sector**

- The Abraaj Group, a Dubai-based private equity investor acquired a 100% stake in Kenya's Java House Group (Java) after it emerged the top bidder among a group of institutional investors including Actis, headquartered in London, Washington-based Carlyle Group and San Francisco-based TPG, who were all looking to acquire the food chain. The transaction, whose value was undisclosed, led to Washington-based Emerging Capital Partners (ECP) giving up their 90.0% stake in the business and the food chain's founder Kevin Ashley his 10.0% stake.

- Simba Corporation, the parent company of Villa Rosa Kempinski, acquired a 35.0% stake in Hemngways Holdings Limited, the company that owns Hemingways Watamu, Ol Seki Hemingways Mara, and Hemingways Nairobi, for an undisclosed amount.
- Travel giant, Thomas Cook India Group, a travel company listed on the Bombay Stock Exchange, bought out Nairobi-based safari operator, Private Safaris for an undisclosed amount. Private Safaris is part of Kuoni's Destination Management Specialists (DMS), which is one of Kuoni Group's core activities.

The hospitality sector has continued to attract investors as a result of the recovery in the sector. The recovery has mainly been driven by (i) improved security in the country, (ii) aggressive marketing by the government, which has helped restore confidence among key international markets such as Europe and USA, (iii) International conferences held in Nairobi during the year such as the Africa Renewable Energy Leaders' Summit, and Aid and Development Africa Summit Expo, and iv) incentives by the government such as the introduction of liberal entry for all African visitors into Kenya, removal of VAT charges on national park fees and the scrapping of visa fees for children under the age of 16-years. According to the Kenya National Bureau of Statistics, between January and September 2017, the number of international visitor arrivals increased by 10.3% at Jomo Kenyatta International Airport to 650,119 from 589,458 in the same period in 2016 and by 7.1% at Mombasa's Moi International Airport to 70,257 from 65,600, indicating the growing demand in the sector.

### **Education Sector**

- Actis, a London based private equity firm, launched the first African private higher education network, Honoris United Universities, bringing together the leading tertiary education institutions in North and Southern Africa. Actis is expected to spend at least USD 275.0 mn to acquire leading universities across nine African countries, which include Tunisia, Morocco, South Africa, Namibia, Mauritius, Botswana and Zimbabwe.
- Vumela Enterprise Development Fund, a fund managed by FNB Business Banking and Edge Growth, acquired an undisclosed stake in Nova Pioneer, an independent school network in South Africa offering pre-school through secondary education for students from ages 3 through 19. The transaction involved investment of USD 1.1 mn (Kshs 115.9 mn) in Nova Pioneer, which is part of the Nova Pioneer Education Group, which currently offers a primary and secondary school education in four Schools, all based in Johannesburg and is affiliated to Nova Pioneer Kenya that offers two secondary schools and a primary school.

We expect to see an increase in investment in the education sector in Sub-Saharan Africa, as investors are driven by (i) increasing demand for quality and affordable education, and (ii) support, such as ease of approvals, offered to investors in the education sector by governments looking to meet Sustainable Development Goals (SDGs) targets of universal access to tertiary education.

### **Real Estate Sector**

- Cytonn Investments Private Equity division acquired 25.0% stake in Superior Homes Kenya Limited (SHK). SHK is the developer of the 160-acre Greenpark development on Mombasa Road. Cytonn expects to couple the capabilities of its development affiliate, Cytonn Real Estate, in land acquisition, sales and distribution and fundraising, with Superior Homes' strong record in developing master-planned satellite communities to develop more neighborhoods such as Greenpark,
- Mace, a UK-based global construction and consultancy firm, acquired an undisclosed significant stake in Kenya's quantity surveying firm YMR. YMR, which has worked on projects such as Two Rivers, Garden City and the Hub Karen, is headquartered in Kenya and has operations in Uganda, Tanzania, Rwanda, Burundi, Sudan, Ethiopia, Mauritius, Djibouti and Seychelles. The acquisition

will see the business operate under the brand name MaceYMR.

We expect continued investments in the real estate sector by private equity investors driven by (i) the projected economic growth in Sub Sahara Africa, which is expected to be better compared to global markets in the long-term, and (ii) the continued growth of the real estate and construction industry in the region. In Kenya the real estate sector's contribution to GDP over the last 7 years has grown from 12.6% in 2010 to 13.6% in 2016.

***Private equity investments in Africa continues to remain robust as evidenced by the increase in the number of deals and the growing number of successful exits. The PE market in the year 2017 remained bullish recording increasing investor interest 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, and (iii) better long-term economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa.***

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