

Cytonn Weekly #01/2018

Private Equity

Catalyst Principal Partners, a Nairobi Based Private Equity firm, has secured a USD 15.0 mn investment from the African Development Bank (AfDB) for their Catalyst Fund II. The fund, targeting a close of USD 175.0 mn, will be deployed in the local mid-market segment across FMCG, financial services, and healthcare. AfDB being the anchor investor in Catalyst Fund I, targets a participation of 8.6% in Catalyst Fund II, while still maintaining a governance role in the fund. Catalyst Fund I, having closed at USD 123.0 mn, is currently invested in 9 companies most notably Jamii Bora Bank and Goodlife Pharmacy in Kenya (former Mimosa Pharmacy), and Zenufa Pharmaceuticals, Effco (plant hire and distribution company) and Chai Bora in Tanzania. Catalyst, being able to raise additional funds from AfDB, a return investor, indicates local private equity expertise in fundraising, deal sourcing and monitoring of investments. It also highlights the high level of governance in local private equity firms. These qualities are preferable to global institutional investors as they need to partner with local companies that display both technical prowess and best governance practices.

M-PAYG, in its expansion strategy to cover the entire East African region, has opened up an office in Nairobi, to roll out its strategy next month in Kenya. M-PAYG, which is a Danish venture-backed start-up, aims to connect the lower income to renewable energy in a flexible pay as you go model. The system allows off-grid low-income households and businesses to access solar energy through small-scale mobile repayments (Weekly or monthly mobile repayments). With the Kenya Government's electrification target of 100%, off grid energy solutions such as solar, are increasingly becoming more significant in the government plan. This is to be achieved through a combination of increased connectivity of homes to the national grid and off-grid solar power solutions for remote villages, largely by private investors. In addition, Solar equipment is tax exempt as part of government's incentive to spur uptake, seen to provide the country with the shortest route towards a 100% electrification rate. Private Equity investors have also shown keen interest in renewable energy, with the recent investment in Berkeley Energy and M-KOPA, as informed by the fact that (i) only 30% of the African population have access to power, and (ii) 315 mn rural citizens are expected to get access to electricity by 2040, with 70% of this population expected to get connected through off-grid systems such as solar power.

A deal to fund Uchumi by a New York-based Private Equity fund, Kuramo Capital, has collapsed at the final stages of negotiations due to disagreement over the timing of cash injection and concerns over the Treasury's intended sale of its 14.7% stake in the retailer. Kuramo controls a portfolio of over Kshs 30.9 bn and is the single-largest shareholder at TransCentury having acquired 25% of the firm for Kshs 2.0 bn. Following the collapse of talks with Kuramo, Uchumi has begun talks with a new Asian equity investor who is expected to inject funds required to clear the retailer's huge debts and restock the business. We view the pursued private equity deals as the best way to revive the struggling retailer as it results in improved governance of the firm, which is the root cause of Uchumi's downfall, in addition to funding the business.

Private equity investments in Africa remains robust as evidenced by the increasing investor interest attributed to (i) rapid urbanization, a resilient and adapting middle class and

increased consumerism, (ii) the attractive valuations in Sub Sahara Africa's private markets, (iii) the attractive valuations in Sub Sahara 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.

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