



The Total Cost of Credit Post Rate Cap., & Cytonn Weekly #02/2018

Private Equity

During the week, we witnessed activity in the TMT (Technology, Media & Telecommunications) sector, which is one of the PE sectors we cover, including Real Estate, Financial Services, Hospitality, and Education.

IHS Holdings Limited, a provider of mobile telecommunications infrastructure in Africa with operations in Nigeria, Cameroon, Côte d'Ivoire, Zambia, and Rwanda, received USD 231.0 mn (Kshs 23.8 bn) in 8-year debt funding from MTN Group, Africa's biggest GSM operator. MTN currently owns a 29.0% stake in IHS after it increased its stake in 2017 from 15.0% (valued at USD 920.1 mn), through a share swap of its 51% stake in Nigeria Tower INTERCO - a company which MTN co-owned with IHS, for the 14.0% extra stake in IHS. The financing will be beneficial to MTN as it will enable accelerate MTN's network expansion in markets, such as Nigeria and will allow its Nigerian unit to continue investing in its network. The Telecommunication Sector in SSA continues to attract investments, both from foreign and local investors, driven by (i) increased capital looking for Telecommunications investments, driven by both the sector's higher potential exit valuation compared to other sectors, such as the banking stocks, informed by their current higher trading multiples, with Telcos in SSA trading at a higher P/E of 19.2x compared to the SSA Banking Sector, which is trading at a P/E of 7.9x, and long term fundamental growth potential, with increased growth in mobile penetration in Africa, which is currently at 43.0%, and is expected to hit 51.2% by 2020, and (ii) increased technological advancement in the financial services sector, which is highly dependent on the telco industry.

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.