Why Stock Indices Performance Differ; A Case Study of NASI vs NSE 20, & Cytonn Weekly 04/2018

Private Equity

Kuramo Capital, a New-York based private equity firm has completed a transaction to acquire a minority stake in Kenyan investment bank Sterling Capital for an undisclosed amount. The transaction will see Kuramo and Sterling's other two principal shareholders, Stanley Ngaine who is a non-Executive director, and Reithfield (K) Limited, inject Kshs 200.0 mn into the business. The acquisition follows the reinstatement of Sterling's investment banking license in October 2017, after it was downgraded to stockbroker level in 2011, for failing to meet CMA's revised minimum capital limit that required investment banks to raise their minimum capital to Kshs 250.0 mn from Kshs 30.0 mn, while stockbrokers were required to increase their capital to Kshs 50.0 mn, up from Kshs 5.0 mn. The deal will facilitate Sterling's regional expansion and also increase Kuramo's footprint in Africa, where it currently manages a portfolio of Kshs 30.9 bn across 21 other investments in various countries including Kenya and Nigeria. Similar transactions that have been carried out in the past include the acquisition 100% of ApexAfrica Capital by Axis a Mauritian private equity fund in 2015 for Kshs 470.0 mn, translating to a transaction multiple of 40.2x on a P/E basis. The acquisition by Kuramo is strategic, given (i) the expected growth of the equities market in Kenya and Sub Saharan Africa, driven by product diversification, new listings, and continued investor interest fueled by existing low valuations in sections in the market such as the financial services, and (ii) the increasing number of private equity deals in the region leading to a growing need for transaction advisors and valuation services.

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 Saharan 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.