Kenya's Public Debt, Should We Be Concerned? & Cytonn Weekly #7/2018

Private Equity

Dubai Investments, a private equity company listed on the Dubai Financial Market, is set to invest USD 20 mn (Kshs 2.0 bn) in the consortium set to build a chain of Sabis-branded private schools in Africa. The consortium was previously made up of Centum Investment Company, Investbridge Capital and Sabis Education Network. Prior to the investment, 40.0% of the consortium was owned by Centum, 40.0% by Investbridge and 20.0% by Sabis. The value of investment by each party and the new shareholding after the investment by Dubai Investments is undisclosed. The consortium, which is investing through the holding company Africa Crest Education (ACE), is building its first school in Runda, Nairobi, and is expected to have its first admission in September 2018, and will offer the SABIS International curriculum for Kindergarten to Grade 12 level, and is expected to have a capacity of 2,000 students. The investment by Dubai Investments indicates the growing interest in the education sector in Sub Saharan Africa. Other investors who are setting up institutions in Kenya include:

i. Johannesburg Stock Exchange listed firm, Advtech, who is set to open a school in Tatu City under its Crawford Schools brand, offering the THRASS (Teaching, Handwriting, Reading, and Spelling Skills) education system which focuses on pre-primary education,
ii. South Africa based Nova Pioneer, who have set up a Primary and Secondary School in Tatu City offering the 8-4-4 curriculum, and
iii. Cytonn Investments, through its education affiliate Cytonn Education Services (CES), who are looking to provide education for all levels, from the Early Childhood Development Education (ECDE) to Tertiary Education, beginning with a Technical College branded, Cytonn Technical College.

We expect to see an increase in investment in the education sector in Sub-Saharan Africa, as investors are motivated by (i) increasing demand for quality and affordable education, with the Gross Enrolment Ratio (GER) having doubled in the last 10-years to 8.5% in 2016 from 4.5% in 2006 according to a report, "The Business of Education in Africa" by Caerus Capital, 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.

Luxembourg-based private equity (PE) firm Fonds Européen de Financement Solidaire (Fefisol) has invested Kshs 100.0 mn in Musoni Microfinance Limited for an undisclosed stake. Musoni targets small-scale farmers and the informal sector and offers loans at an interest rate of 1.83% per month for group loans and 1.67% per month for individual loans. The investment by Fefisol will be used to grow their loan book, which stood at Kshs 1.2 bn as at January 2018. The investment by Fefisol will support Musoni's objective of achieving competitive low-cost lending in the country at a time where bank funding continues to be relatively expensive (with the cheapest banks having an average Annual Percentage Rate (APR) of 15.1% while the most expensive banks having an average APR of 18.7% as at January 2018) and the private sector credit growth remains below the government target of 18.3%, having come in at 2.4% in December. As highlighted in our write up titled The Total Cost of Credit Post Rate Cap, in Kenya, bank funding accounts for 95% of business funding compared to 40% business funding by banks in developed markets, which highlights the need to diversify funding sources, and enable borrowers to tap into alternative avenues of funding that are more flexible and pocket-friendly.

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.

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