Cytonn Monthly – February 2018

Private Equity

During the month of February, we witnessed heightened private equity activity through acquisitions in sectors such as financial services sector, theeducation sector and in the real estate sector.

In the Education sector, Dubai Investments, a private equity company listed on the Dubai Financial Market stock exchange, 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,andSabis Education Network. Prior to the investment, 40.0% of the consortium was owned by Centum, 40% by Investbridge and 20.0% by Sabis. The value of theinvestment 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, will offer the SABIS International curriculum for Kindergarten to Grade 12 level, and is expected to have a capacity of 2,000 students. For more information, see our Cytonn Weekly #7/2018

In the Financial Services sector, Luxembourg-based private equity (PE) firm FondsEuropéen de FinancementSolidaire (Fefisol) invested Kshs 100.0 mn in Kenya's 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. For more information, see our Cytonn Weekly #7/2018

In the Real Estate sector, UK headquartered construction and management consultant, Turner and Townsend, acquired a 79.5% majority stake in Kenyan based Mentor Management Limited, MML, a project management company from private Equity firm Actis for an undisclosed amount. The management team of MML will retain the minority stake. For more information, see our Cytonn Weekly #6/2018

According to a report by the Africa Private Equity Venture Capital Association's (AVCA) report released during the month, Africa recorded 149 private equity deals in 2017, valued at USD 3.8 bn, down from 150 deals recorded in 2016 valued at USD 3.9 bn. On fundraising, Africa recorded a total of USD 2.3 bn in funds raised for Private Equity down from USD 3.4 bn raised in 2017. The Information and Technology sector was the most active sector for PE deals in Africa in 2017, with its number of PE deals rising to 15.0% of total PE deals from 8.0% in 2016, and the value of funds raised in the sector for venture capital totaling to USD 560.0 mn compared to USD 366.8 mn in 2016, a 53.0% growth. A total of 124 tech start-ups raised funds, with South Africa, Kenya,and Nigeria taking up 76.0% of the funding. South Africa took up USD 168.0 mn of the funding (36.0% of the total), with 42 deals funded, Kenya took up USD 147.0 mn (26.3% of the total), funding 25 deals, while Nigeria took up USD 115.0 mn (20.0% of the total), funding 17 deals. For more information, see our Cytonn Weekly #8/2018

Private equity investments in Africa remains robust as evidenced by the increasing investor interest, which 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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