# Nairobi Commercial Office Report, & Cytonn Weekly #10/2018

## Private Equity

South-African based private equity fund Uqalo has invested Kshs 404.0 mn (USD 4.0 mn) to acquire an undisclosed stake in Kenyan fast food chain Big Square. Big Square has 9 branches in Kenya and operates the Big Square and Pizza Mojo restaurants. The investment is beneficial for both parties as it will (i) finance Big Squares expansion plan, as the outlet targets to expand Big Squares footprint from the current 9 branches to 30 branches over the next four-years, and (ii) it expands Uqalo's footprint and portfolio in Kenya. Uqalo has previously invested in Kenya's Twiga Foods, where it owns a 5.0% stake in the business-to-business food supplier. The interest by investors in the hospitality sector in the country indicates a positive outlook in the performance of the sector, which is supported by (i) the growing middle class with increasing disposable income, and (ii) the continued growth of the sector in the country in the past years. The food and services sector produced a total of Kshs 16.2 bn in Gross Income in 2016, a 4.5% increase from Kshs 15.5 bn recorded in 2015.

According to a report by the East Africa Private Equity and Venture Capital Association (EAVCA), private equity and venture capital firms injected Kshs 43.6 bn (USD 430.0 mn) into the Kenyan economy in 2017. This was Kshs 9.1 bn (USD 90.0 mn) more than Kshs 34.5 bn (USD 340 mn) worth of deals recorded in 2016. Kenya accounted for 89.5% of the total deal value in East Africa, valued at Kshs 48.7 bn (USD 480.4 mn), a jump from 70.2% of the Kshs 49.1 bn (USD 484.1 mn) deal value in 2016. The value of deals in the region in Kenya decreased by 0.8% to Kshs 48.7 bn in 2017, from Kshs 49.1 bn recorded in 2016 as the number of deals in the region dropped by 29.3% to 29 from 41 recorded in 2016. The slowdown in PE activity was attributed to reduced deal activity in some countries such as Kenya, whose extended uncertainty during the election period resulted in investors adopting a wait-and-see approach to deals during the year. However, the minimal decline in deal value, despite the significant decline in number of deals, affirms the continued investor's confidence in the region, driven by attractive valuations in the region and better economic projections in the region as compared to global markets, with Sub Saharan Africa (SSA) expected to register economic growth of 3.4% in 2018, higher than the 2.6% expected in 2017 and 1.4% recorded in 2016. We expect continued growth in Private equity deals and deal value in the region, attributed to (i) a general improvement in ease of doing business in the region, (ii) high return potential across major sectors, especially those underserved by the Government, (iii) a well-diversified economy, resilient to external shocks, and (iv) improved political stability.

***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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