Restructuring an Insolvent Business – Case Study of Nakumatt Holdings, & Cytonn Weekly #12/2018

Private Equity

Centum Investments Limited, a leading East African investment firm that is cross-listed in the Kenya and Uganda Stock Exchanges, has completed a sale of its 25.0% stake in Platcorp Holdings Limited, the holding company of Platinum Credit, to Suzerain Investment Holdings Limited, for an undisclosed amount. Platinum Credit is a non-banking, non-deposit taking microfinance institution that offers emergency loans to customers in Kenya, Uganda and Tanzania. Centum invested in Platinum Credit in December 2012 with purchase of a 36.0% stake for approximately Kshs 0.8 bn, effectively valuing the microfinance institution at Kshs 2.2 bn at the time of purchase. This stake was thereafter diluted to 33.0% following the entry of a new undisclosed investor. Earlier this year, Centum sold off 8.0% through a partial exit, bringing its shareholding to 25.0%, with the 8.0% being sold for Kshs 432.0 mn, effectively valuing Platinum Credit at Kshs 5.4 bn, a 145.0% increase in value from 2012. Centum announced the sale of the remaining 25.0% for an undisclosed amount. Going by the value of Platinum Credit as at Centum's partial exit, the divestment from Platinum is set to earn Centum about Kshs 1.3 bn. According to Centum, the investment in Platinum has delivered a 31.0% internal rate of return over the holding period since 2012.

In another transaction by Centum, they reached a deal to sell off a controlling 73.4% stake in fund manager GenAfrica (formerly Genesis Kenya Investment Management Limited) to New York-based equity fund Kuramo Capital LLC. GenAfrica manages assets of about Kshs 157.0 bn as at March 2017. The deal is subject to regulatory approval. According to Centum's 2017 Annual Report, their stake in GenAfrica is valued at Kshs 1.4 bn. With GenAfrica's earnings of Kshs 141.0 mn for the year ended March 2017, the transaction could have been carried out at a P/E multiple of 9.95x. Similar transactions that have been carried out in the past include the acquisition 100.0% 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 table below summarises the details of both transactions:

Asset Manager Acquired	Acquirer	Earnings at Acquisition (Kshs bn)	Acquisition stake (%)	Transaction Value (Kshs bn)	P/E Multiple	Date
Apex Africa	Axis (Mauritius)	0.01	100	0.5	40.2x	August 2015
GenAfrica	Kuramo Capital	0.1	73.4	1.4	9.95x	March 2018

Proceeds from the sale of stakes in the two firms are expected to boost Centum's full-year profit for the period ending March 2018. The proceeds from the sale will enable Centum to deploy capital in other planned investment opportunities across various focus sectors including Education, FMCGs, ICT, Power and Real Estate. Centum, has over the past five years exited several firms in which it is not a significant shareholder as its strategy shifted from being primarily a PE investor to adopting a project sponsor or developer business model over the years. Its aim is to achieve partial or full exits of the projects in order to realize gains. The firm in 2015 sold its stake in UAP Holdings to Old Mutual, making a gain of Kshs 2.8 bn over the book value of the stock as highlighted in our Cytonn Monthly January 2015. Also, in 2016, Centum booked a Kshs 1.0 bn gain from the sale of its 21.5% stake in insurance brokerage AON (now Minet Kenya) as highlighted in our Cytonn Weekly #14/2017. The recent two exit deals, in a timespan of one week, are a signal of a healthy local PE market driven by increased investor interest in Kenyan companies, due to strong value potential, and availability of quality investment-grade assets.

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 growth 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.