

Cytonn Q1'2018 Markets Review

Private Equity

Financial Services Sector

1. Centum Investments, an investment company based in Kenya, has injected Kshs 1.1 bn into its banking subsidiary Sidian Bank, through a rights issue meant to fund lender's growth initiatives. Centum holds a 72.9% stake in Sidian Bank through a non-operating holding company dubbed Bakki Holdco Ltd. The additional sum means that it has defended its entire stake in the rights issue, with shareholders approving a total of Kshs 1.5 bn rights issue in March 2018. The additional capital will support the Bank's growth plans, including further investments in its trade finance business, which saw a growth in portfolio from Kshs 896.0 mn in 2016 to Kshs.6.6 bn by close of 2017. This is the second time in 2-years that Centum has put money into Sidian through a rights issue. In 2016, the investment firm put in Kshs 1.2 bn into the bank, earning it an additional stake. This pushed its shareholding from 65.9% (after the initial investment of Kshs 2.5 bn) to 72.9%. The investment firm managed to increase its stake in the bank after some of the minority owners failed to take up their rights in the 2016 transaction. Centum's latest decision to inject additional money into Sidian comes at a time when the investment firm has been divesting from some of its investments in companies such as asset manager GenAfrica, where it sold a 73.4% stake to New York-based equity fund Kuramo Capital and the sale of its stake in micro-financier Platinum Credit.
2. Atlas Mara Limited, a financial services holding company, increased its strategic stake in Union Bank Nigeria (UBN) through a Naira 26.3 bn (USD 75.0 mn) investment in UBN's rights issue. UBN completed a Naira 49.7 bn (USD 138.2 mn) rights offering on the Nigerian Stock Exchange at a price of Naira 4.1 per share and registered a 120.0% subscription rate. Atlas Mara's investment of USD 75.0 mn translated to around 6.6 bn shares. Atlas Mara previously owned 44.5% of UBN's issued share capital at the time, translating to 7.6 bn shares. With the acquisition, Atlas will have 14.1 bn shares in total, of the 29.1 bn shares issued translating to a 48.6% ownership in UBN, having fully subscribed to the rights related to its pre-existing 44.5% shareholding, and acquired shares representing a 3.1% shareholding through application for additional shares during the rights issue. The transaction was valued at a P/B of 0.3x, which is a 84.2% discount to the average P/Bv multiple of 1.9x for select listed Banks in Nigeria. For more information, see our [Cytonn Weekly #3/2018](#)
3. Kuramo Capital, a New-York based private equity firm completed a transaction to acquire a minority stake in Kenyan investment bank Sterling Capital for an undisclosed amount. The acquisition came after 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. For more information, see our [Cytonn Weekly #4/2018](#)
4. Fonds Européen de Financement Solidaire (Fefisol), a Luxembourg-based private equity (PE) firm, invested Kshs 100.0 mn in Kenya's Musoni Microfinance Limited for an undisclosed stake. 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. For more information, see our [Cytonn Weekly #7/2018](#)

We expect that Investors will continue to show interest in the financial service sector, motivated by attractive valuations, growth of financial inclusion and regulation that requires institutions to increase their capital requirements across the sector.

Hospitality Sector

1. South-African based private equity fund Uqalo invested Kshs 404.0 mn (USD 4.0 mn) to acquire an undisclosed stake in Kenyan fast food chain Big Square. 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) expand 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. For more information, see our [Cytonn Weekly #10/2018](#)

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.

Education Sector

1. 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, and Sabis 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 the 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). For more information, see our [Cytonn Weekly #7/2018](#)
2. Schole Limited, a London based education provider has acquired 100% stake of Makini Schools for an undisclosed amount. Schole operates 3 institutions across Africa, (i) Crested Crane Academy, Zambia, (ii) Pestallozi Education Centre in Zambia, and (iii) Kisun High School in Uganda.

The acquisition indicates the rising interest increase in investment in the education sector in Sub-Saharan Africa. Other investors who are setting up institutions in Kenya include:

1. 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,
2. South Africa based Nova Pioneer, who have set up a Primary and Secondary School in Tatu City offering the 8-4-4 curriculum, and
3. 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 College of Innovation and Entrepreneurship

We expect to see an increase in investment in the education sector in Sub-Saharan Africa, as investors are driven by (i) increasing demand for quality and affordable education, 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.

Real Estate Sector

1. 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](#)

We expect that Investors will continue to show interest in Kenya's real estate and construction industry, which is on the rise driven by (i) a high urbanization rate of 4.4% against the global average of 2.1%, leading to a rise in demand for housing, (ii) expanding middle class with increased disposable income, with the country's disposable income having increased to Kshs 7.4 tn in 2016 from Kshs 6.5 tn in 2015 as per Kenya National Bureau of Statistic's Economic Survey 2017, (iii) Kenya's housing deficit of approximately 2.0 mn units with an increasing annual shortfall of 200,000 units, and (iv) better operating environment for developers, characterized by tax relief of 15.0% for developers developing more than 100 affordable housing units per annum

Fundraising

1. Catalyst Principal Partners, a Nairobi Based Private Equity firm, secured a USD 15.0 mn investment from the African Development Bank (AfDB) for their Catalyst Fund II. The fund, targeting a close of USD 175.0 mn, will be deployed in the local mid-market segment across FMCG, financial services, and healthcare. AfDB being the anchor investor in Catalyst Fund I, targets a participation of 8.6% in Catalyst Fund II, while still maintaining a governance role in the fund. For more information, see our [Cytonn Weekly #01/2018](#)

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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