Kenya Listed Banks FY'2017 Report, & Cytonn Weekly #15/2018

Private Equity

Branch International, a mobile-based microfinance institution for emerging markets, headquartered in California and with operations in Kenya, Tanzania and Nigeria, raised USD 70.0 mn in Series B funding, which combines USD 50.0 mn in debt and USD 20.0 mn in equity of an undisclosed stake. The funding was led by California-based Trinity Ventures, a venture capital firm specializing in growth capital investments. Other investors include China-based CreditEase Fintech Investment Fund, Victory Park, IFC, and Andreessen Horowitz, which are based in the US. Branch International uses M-Pesa and Facebook established data to provide financial services to over one million borrowers. The funds will enable the mobile loan app company to expand its services beyond credit access, to savings and payments, and to start operations in India. Branch International processes loans worth Kshs 400.0 mn in a month in amounts ranging from Kshs 250.0 (USD 2.48) to Kshs 50,000 (USD 495.75). In Kenya, the company has disbursed Kshs 3.6 bn via mobile money platform M-Pesa since its launch in April 2015. Branch International targets to disburse over Kshs 25.2 bn (USD 250.0) mn in 2018. According to a March 2018 report from McKinsey, 2.0 bn people and 200.0 mn small businesses in emerging markets lack access to savings and credit, and technology-led financial services firms have the potential to acquire 1.6 bn new retail customers and grow individual and business loan volumes by USD 2.1 tn. The Series B investment brings Branch's total funding to USD 80.0 mn in the three-years since it was founded. Similar investments in the past include debt financing led by Nabo Capital in 2017 of Kshs 200.0 mn (USD 2.0 mn), a Series A equity funding round for Branch International, the company's first significant round of venture capital financing, of USD 9.6 mn led by Andreessen Horowitz US-based venture capital firm in 2016, which was used for expansion into Nigeria, and an undisclosed seed capital from US-based Formation 8 and Khosla Ventures. This indicates growth in alternative lending platforms driven by a decline in private sector credit growth in Kenya, which sunk to 2.4% in 2017, from highs of 25.0% before the introduction of the interest rates capping regulation in 2016.

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.