Rate Cap Review Should Focus More on Stimulating Capital Markets, & Cytonn Weekly #19/2018

Private Equity

Sanlam Kenya, a financial services company listed on the Nairobi Securities Exchange, which mainly deals in insurance, investments and retirements schemes, has invested an additional Kshs 121.7 mn in equity in Sanlam General according to their annual report 2017. Sanlam Kenya, then Pan Africa Insurance Holdings Limited (Pan Africa), first acquired 31,948,950 ordinary shares of Gateway Insurance, a 51.0% stake, in March 2015 for Kshs 561.0 mn. It also subscribed to additional shares in Gateway amounting to Kshs 139.7 mn to increase its shareholding to 56.5% in the same year. After the transaction, it renamed Gateway Insurance to Sanlam General. The first and second transaction valued the company at Kshs 1.1 bn and Kshs 1.2 bn, respectively. The acquisitions were carried out at a P/Bv multiple of 1.1x. The acquisition was a strategic move for the company to re-enter the general insurance market and to enable them to offer their clients with more financial solutions. In 2016, Sanlam Kenya made an additional investment of Kshs 213.7 mn in Sanlam General, increasing their stake in the company to 67.6%. The additional investment made in 2017 raises Sanlam Kenya's total investment in the subsidiary to Kshs 1.0 bn. The investment, however, left their ownership unchanged as the minority shareholders also made an additional investment of Kshs 66.5 mn. Sanlam stated that its capital commitment in the unit is Kshs 496.6 mn, as a result of an impairment charge of Kshs 539.6 mn, which was recognized in the company's statement of profit or loss for the year ended 31st December 2015, as a result of prior year adjustments passed in the accounting records of Gateway in 2015.

AccorHotels, a French multinational hotel group, which operates in 95 countries, signed an agreement with Mövenpick Holding and Kingdom Holding to acquire a 100% stake of Mövenpick Hotels & Resorts for 560.0 mn Swiss Francs (USD 558.3 mn). According to their statement, the enterprise value of 560.0 mn Swiss Francs implies a multiple of 14.9x expected 2019 EBITDA of USD 37.5 mn. Mövenpick Hotels & Resorts is a hotel management company headquartered in Baar, Switzerland. It is currently owned by Mövenpick Holding who have a stake of 66.7%, and the Saudi based Kingdom Group who have a stake of 33.3%. Mövenpick Hotels & Resorts operates in 27 countries with 84 hotels, approximately 20,000 rooms and a particularly strong presence in Europe and the Middle East. In Africa, Mövenpick Hotels & Resorts operates 24 hotels in 5 countries; 16 Hotels in Egypt, 3 Hotels in Tunisia, 3 Hotels in Morocco, 1 Hotel in Ghana and 1 Hotel in Kenya. The Mövenpick Hotel & Residences Nairobi is located in Westlands. They have focused their growth in Europe, The Middle East, Africa and Asia. They plan to open 42 additional hotels by 2021, adding a further 11,000 rooms to its portfolio, with 5 new hotel developments in Africa; 2 in Egypt, 1 in Cote d'Ivoire, 1 in Ethiopia, and 1 in Nigeria. The acquisition is important for both parties, as it will accelerate AccorHotels growth in emerging markets particularly in the Middle East, Africa and Asia Pacific. Mövenpick Hotels & Resorts will benefit from AccorHotels' loyalty program, distribution channels and operating systems, which will help optimize their performance.

The last decade has seen many global operators opening quality hotels in key markets in Sub-Saharan Africa like South Africa, Mauritius and Kenya with the supply of new hotels attributed to high occupancy rates. South Africa, Mauritius and Kenya had occupancy rates of 62%, 79% and 53%, respectively in 2017. The Average Daily Rate (ADR) was USD 101, USD 212 and USD 143, respectively in the same year. The ADR in the three counties grew by 7.8%, 5.5% and 0.7%, respectively, from the previous year. The hospitality sector in Sub-Saharan Africa is set to perform well driven by the following factors:

i. A growing population and expected strong economic growth where GDP is expected to grow by 3.4% in 2018, and 3.5% in 2019, from an expected 2.7% in 2017,
ii. Growth in both international and domestic travelers to the market,
iii. An expected improvement in hotel standards as there is a shortage of quality hotels in Africa and as the middle class grows, there is higher demand for quality hotels, and,
iv. Increase in intra-African travel as the continent experiences better connectivity, access to low-cost airlines, and more countries embracing visa-free travel within Sub-Saharan Africa.

In Kenya, we expect further growth in the hospitality sector as a result of (i) restoration of political calm, (ii) the revision of negative travel advisories, warning international citizens, e.g. from the United States against visiting Kenya, (iii) positive reviews from travel advisories such as Trip Advisor who ranked Nairobi as the 3rd best place to visit in 2018, only behind Ishigaki Island in Japan and Kapaa in Hawaii, and The Travel Corporation who ranked travel to Kenya as one of the top 10 transformative travel experiences in the world, (iv) improved hotel standards as hotels rebrand while some embark on refurbishment and expansion, and (v) improved flight operations and systems such as direct flights from the USA to Kenya, which are set to commence this year.

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.
