Cytonn Monthly – May 2018

Private Equity

During the month of May, we witnessed increased private equity activity in the financial services, hospitality, fintech and education sectors as follows:

Financial Services Sector

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 (previously Gateway Insurance) according to their 2017 annual report. 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/B 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. For more information, see our Cytonn Weekly #19/2018

AfricInvest, a private equity and venture capital firm based in Tunisia with a focus on agribusiness, financial services, healthcare, education and commercial sectors, completed a transaction to buy a 14.3% stake in Britam, a diversified financial services group that is listed on the Nairobi Securities Exchange, for Kshs 5.7 bn. The transaction involved the creation of 360.8 mn new shares, which AfricInvest bought at a price of Kshs 15.9 per share. Britam will use the capital to accelerate property development, inject fresh investments into its subsidiaries, and to revamp its technology to enable it deliver its products via digital channels like mobile phones, with an eye on Micro-insurance. The acquisition was carried out at a P/B multiple of 1.4x. For more information, see our Cytonn Weekly #21/2018

Hospitality Sector

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. For more information, see our Cytonn Weekly #19/2018

Fintech Sector

Lidya, a digital financial services company based in Nigeria, raised USD 6.9 mn is Series A funding. The funding was led by Silicon Valley based Omidyar Network, an impact investment firm established by Pierre Omidyar, the founder of eBay. Other investors in the round included Alitheia Capital (via the Umunthu Fund), Bamboo Capital Partners and Tekton Ventures. The round also included funding from existing investors, Accion Venture Lab and Newid Capital. Lidya focuses on providing and improving access to credit for MSMEs (Micro, Small and Medium Enterprises) in emerging markets. They extend credit to business in the following sectors, (i) farming, (ii) hospitality, (iii) logistics, (iv) retail, (v) real estate, (vi) technology, and (vii) health. Businesses can apply for loans ranging from USD 500 to USD 50,000, without the need to go to a physical location, present audited financials and projections, or provide collateral. Since inception in 2016, Lidya has disbursed 1,981 business loans and has 105,519 business registered on its platform. Lidya will use the funds raised to expand its loan book, scale up in Nigeria, enter new markets in Africa, and bring in more skilled professionals, particularly data scientists and engineers.

Lack of access to finance is a major issue for entrepreneurs and MSMEs across Africa. According to the IMF, there are 44.2 mn MSMEs in Sub-Saharan Africa with a potential demand for USD 404.0 bn in financing. The current volume of financing in Sub-Saharan Africa is estimated at USD 70.0 bn, signifying a huge financing gap of USD 331.0 bn. Nigeria, a large contributor to the enterprise count in Sub-Saharan Africa, has 37 mn MSMEs and an MSME finance gap of USD 158.1 bn. Microfinance institutions aim to bridge this gap by offering convenient access to credit**.**

Cellulant, a leading Pan-African digital payments service provider that prompts, collects, settles and reconciles payments in real time, has raised Kshs 4.8 bn (USD 47.5 mn) in Series C funding from a consortium of investors led by: Texas Pacific Group (TPG), through The Rise Fund, the impact fund run by the private equity group, Endeavour Catalyst, and Satya Capital, the private equity firm owned by Sudanese-British billionaire Mo Ibrahim. The USD 47.5 mn represents the largest deal of its kind dedicated solely to Africa’s FinTech and payments space. However, the stake acquired was not disclosed. Cellulant offers digital payments platforms and mobile banking services aimed at those who do not have a bank account. For more information, see our Cytonn Weekly #20/2018

Education Sector

In its first investment in the education sector in Africa, One Thousand & One Voices (1K1V), a private family capital fund backed exclusively by families from around the globe, invested an undisclosed amount in Higher Ed Partners South Africa (HEPSA), a South African online education company. Based in Johannesburg, HEPSA is an integrated provider of online program management services to the leading tertiary educational institutions in South Africa. The company assists universities in converting their on-campus degree programs into an online format, recruits qualified students for those programs, and supports enrolled students through graduation. For more information, see our Cytonn Weekly #20/2018

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.