

The Draft Financial Markets Conduct Bill, 2018, & Cytonn Weekly #23/2018

Private Equity

European financial services company Allianz Group has agreed to acquire 8.0% in African reinsurer Africa Re. The total cash consideration payable at closing would amount to Eur. 69.0 mn. Headquartered in Munich, Germany, Allianz is the world's third-largest financial services company by revenue (Eur. 109.6 bn) as of year ended 2017. With Eur. 1,960.0 bn worth of assets under management, the group's core businesses are insurance and asset management. African Reinsurance Corporation, commonly referred to as Africa Re, is a reinsurance company based in Lagos, Nigeria. Founded in 1976 by the member states of the African Union and African Development Bank (ADB), it has operations spanning more than 60 countries with physical presence in eight locations including Lagos (Nigeria), Casablanca (Morocco), Nairobi (Kenya), Abidjan (Ivory Coast), Johannesburg (South Africa), Ebene (Mauritius), Cairo (Egypt) and Addis Ababa (Ethiopia).

As of December 2016, Shareholding in Africa Re was as follows:

Shareholder	Number of Shares	In %
41 Member States	986,627	34.6 %
Africa Development Bank	240,000	8.42 %
111 African Insurance Companies	964,778	33.83 %
3 Non-African Investors	660,000	23.15 %

The party selling its stake is yet to be disclosed. An 8.0 % stake will be equivalent to 228,112 shares. The purchase of 8.0% stake at Eur. 69.0 mn, implies a market valuation of Eur. 862.5 mn; based on their last published financial statements (December 2016), the book value was Eur. 774.8 mn, implying the transaction is valued at a P/B ratio of 1.2x. This investment is a significant milestone and in line with Allianz's long-term growth strategy in Africa having identified it as one of the future growth markets. A similar deal in 2017 saw Allianz Group acquire 98.0% of Nigerian Insurer Ensure Insurance for Eur. 29.6 mn, a transaction valued at a P/B ratio of 1.5x. Allianz Group is also the sole insurance investor in BIMA, the digital micro-insurer that uses mobile technology to serve low-income customers in Africa, Asia and Latin America.

This is in line with recent deals in the insurance industry as shown in the table below:

Insurance Sector Transaction Multiples over the last Seven Years							
No.	Acquirer	Insurance Acquired	Book Value (bn Kshs)	Transaction Stake	Transaction Value (bn Kshs)	P/B	Date
1	Africa Development Corporation	Resolution Health E. Africa	N/A	25.1%	0.2	N/A	Dec-10
2	Leapfrog Investments	Apollo Investments	0.3	26.9%	1.1	15.6x	Dec-11
3	Saham Finances	Mercantile Insurance	0.5	66.0%	Undisclosed	N/A	Jan-13
4	Swedfund	AAR	0.4	20.0%	0.4	5.4x	May-13

5	BAAM	Continental Re Kenya	0.7	30.0%	0.3	1.4x	Apr-14
6	Union Insurance of Mauritius	Phoenix of East Africa	1.8	66.0%	2	1.6x	May-14
7	UK Prudential	Shield Assurance	0.1	100.0%	1.5	10.2x	Sep-14
8	Swiss Re	Apollo Investments	0.6	26.9%	Undisclosed	N/A	Oct-14
9	Britam	Real Insurance Company	0.7	99.0%	1.4	2,1x	Nov-14
10	Leap Frog Investments	Resolution Insurance	0.2	61.2%	1.6	11.7x	Nov-14
11	Old Mutual Plc	UAP Holdings	9.6	60.7%	11.1	1.9x*	Jan-15
12	MMI Holdings	Cannon Assurance	1.7	75.0%	2.4	1.9x	Jan-15
13	Pan Africa Insurance Holdings	Gateway Insurance Co. Ltd	1.0	51.0%	0.6	1.1x	Mar-15
14	Barclays Africa	First Assurance	2.0	63.3%	2.9	2.2x	Jun-15
15	IFC	Britam	22.5	10.4%	3.6	1.5x	Mar-17
16	Africinvest III	Britam	28.5	14.3%	5.7	1.4x	Sep-17
17	Allianz Group	Africa Re	91.9	8.0%	8.2	1.2x	Jun-18
	Average		10.2	47.3%	2.9	1.65x	

*-Proforma Transaction Multiple

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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