

Kenya Listed Banks Q1'2018 Report, & Cytonn Weekly #24/2018

Private Equity

Swiss Re, a reinsurance company with offices in over 25 countries with a focus on reinsurance services, has acquired a 13.8% stake in Britam for Kshs 4.8 bn. The transaction involved the acquisition of 348.5 mn shares of Plum LLP at a price of Kshs 13.8 per share. Britam's shares closed the week at Kshs 14.6, 6% above the transaction price. Swiss Re is now the third major international investor in Britam, after IFC acquired a 10.4% stake in 2017, and AfricInvest acquired a 14.3% stake in 2017. The transaction is the second for Swiss Re in Kenya after it acquired a 26.9% stake in Apollo Investments in 2014. The transaction indicates the company's confidence in the long-term growth and management of Britam, and highlights the opportunity in Kenya's financial services sector. Britam, which has offices in Kenya, Uganda, Tanzania, Rwanda, South Sudan, Mozambique and Malawi, offers a wide range of financial products and services. The acquisition was carried out at a P/B multiple of 1.3x, which is a 38.0% discount from the average insurance sector transaction P/B multiple of 2.1x over the last seven years, hence a relatively cheaper transaction valuation. The table below highlights the transaction multiples in Kenya's insurance sector over the last seven years;

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 East 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%	2.0	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

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
12.	MMI Holdings	Cannon Assurance	1.7	75.0%	2.4	1.9x	Jan-15
13.	Pan Africa Insurance Holdings	Gateway Insurance Company 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.	Swiss Re Asset Management	Britam	22.6	13.8%	4.8	1.3x	Jun-18
	Harmonic Mean			29.9%		2.1x	
	Median			55.9%		1.9x	

**-Pro-forma transaction multiple*

For Swiss Re, they have picked a compelling asset, with a solid regional presence, a strong distribution network and a diversified business strategy at a very attractive valuation of 1.3x P/B compared to a seven-year average of 2.1x, while positioning themselves within the capital markets for easier exit once they realize value. For Britam, they get a sound business partner as a significant shareholder, which will help boost their growth strategies. The lower valuations, coupled with increased capital requirements across the sector and regulatory demand for more discipline in the financial services sector, will most likely lead to more merger and acquisition (M&A) transactions over the coming years.

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