

## Eurobonds in Sub-Saharan Africa, & Cytonn Weekly #25/2018

## **Private Equity**

Old Mutual, a UK based international financial services group providing investment and savings, insurance, asset management and retirement solutions, is set to increase its stake in UAP Holdings in a deal to covert a Kshs 2.7 bn loan into equity through its subsidiary Old Mutual Holdings Kenya. Old Mutual first invested in UAP in January 2015 when the company first bought a combined 23.3% stake from investment firm Centum and businessman Chris Kirubi, and later in the same month announced that it had entered into an agreement with AfricInvest, Abraaj and Swedfund to buy their combined stake of 37.3%. This transaction made Old Mutual the largest shareholder of UAP Holdings with a 60.7% stake in the company at a cost of Kshs 20.8 bn. The transaction was carried out at a P/B multiple of 3.6x. However, in 2017 Old Mutual wrote off Kshs 9.7 bn as goodwill impairment. Following the adjustment of the goodwill impairment, the post write-off acquisition transaction value dropped to Kshs 11.1 bn representing a P/B transaction multiple of 1.9x. UAP did not disclose the conversion price for the proposed debt-to-equity transaction. At the current market price of Kshs 160 for the UAP Holding shares that are traded over the counter, the debt-to-equity transaction will see Old Mutual increasing its current stake by 7.3%. The conversion will however dilute existing shareholders and Old Mutual will have a combined stake of 63.5% after the dilution. The transaction will imply a P/B multiple of 1.8x which is a 15% 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			

## **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
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%	20.8	3.6x**	Jan-15
12.	Old Mutual Plc	UAP Holdings	9.6	60.7%	11.1	1.9x*	Jan-15
13.	MMI Holdings	Cannon Assurance	1.7	75.0%	2.4	1.9x	Jan-15
14.	Pan Africa Insurance Holdings	Gateway Insurance Company Ltd	1.0	51.0%	0.6	1.1x	Mar-15
15.	Barclays Africa	First Assurance	2.0	63.3%	2.9	2.2x	Jun-15
16.	IFC	Britam	22.5	10.4%	3.6	1.5x	Mar-17
17.	AfricInvest III	Britam	28.5	14.3%	5.7	1.4x	Sep-17
18.	Swiss Re Asset Management	Britam	22.6	13.8%	4.8	1.3x	Jun-18
19	Old Mutual Plc	UAP Holdings	19.0	7.30%	2.7	1.8x**	Jun-18
	Harmonic Mean			29.9%		2.1x	
	Median			55.9%		1.9x	

<sup>\*-</sup>Proforma transaction multiple after goodwill impairment write-off

The proposed transaction is part of UAP's efforts to ease its heavy debt burden that has seen it explore multiple options, including renegotiating loan terms with financiers such as the International Finance Corporation (IFC). In the company's 2017 annual report the company indicated that it is set to covert its short term borrowings, the first being the above debt from Old Mutual Holdings Kenya of Kshs 2.7 bn, and the second a Nedbank loan of USD 31.0 mn subject to the approval of the board.

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 macroeconomic environment will continue to boost deal flow into African markets.

<sup>\*\*-</sup>Excluded in the harmonic mean and median