Nairobi Metropolitan Area Residential Report 2017/2018 & Cytonn Weekly #26/2018

Private Equity

Musoni, a Kenyan microfinance institution, has issued out Kshs 2.0 bn in debt notes. The financier, which has 25 branches across the country, was founded in 2010 and focuses on funding small-scale farmers and businesses in the informal sector. The issue mainly targets asset managers, trust management funds, and high net-worth individuals, and is part of the initiative by the institution to shift from foreign-based funding to local financing. The change to local financing is a move by the company to avoid the exchange rate risk it will incur on paying back the debt to foreign investors in their respective currencies. Details of the debt issue include:

i. The tenor of the debt is 2-3 years, and investors have a chance to roll over instead of cashing in, and,
ii. The issue of the debt notes is to take place in four tranches of Kshs 500.0 mn each.

Given that similar microfinance institutions are in the market raising debt through 2-year and 3-year medium term notes at yields of 16.0% and 17.0%, respectively, we are of the view that the Musoni debt issuance will also be priced at around the same range, at 16% for the 2-year debt note and 17% for the 3-year debt note

The Kshs 2.0 bn debt note will be used to grow their loan book, which stood at Kshs 1.8 bn as at December 2017. Musoni offers loans from Kshs 500 to a maximum of Kshs 3.0 mn at an effective annual rate of 24.3% for group loans and an effective annual rate of 22.0% for individual loans. In February 2018, Luxembourg- based private equity firm Fonds European de Financement Solidaire (Fefisol) invested Kshs 100.0 mn in Musoni Microfinance Limited for an undisclosed stake, highlighting global capital interest in micro lending in sub Saharan Africa. Increase in credit lending agencies in Kenya, especially the digital platforms have diversified the source of funds in the country, which has enabled borrowers to tap into alternative avenues of funding that are more flexible and pocket friendly.

Alternative channels of funding, such as Musoni are important for the economy to reduce over-reliance on bank funding. In a normal developed economy, 40% of business funding comes from the banking sector, with 60% coming from non-bank institutional funding. In Kenya, 95% of all funding comes from bank funding, and only 5.0% from non-bank institutional funding, showing that the economy is over reliant on bank lending and should have more alternative and capital markets products funding businesses. Alternative Investment Managers and the Capital Markets Authority need to look at how to enhance non-bank funding, such as high yield investment vehicles, some of which include High Yield Notes.

Mauritius-based SBM Holdings, a banking institution with headquarters in Port Louis, Mauritius, has acquired 75.0% of the value of deposits of Chase Bank, which was under receivership. SBM, which has branches across Mauritius, Madagascar, India and Kenya, was founded in 1973 and provides banking and financial services to retail and corporate customers, governments and individuals through personal banking products. The acquisition is part of SBM's regional expansion initiative, after the bank issued two bonds in Port Louis worth Kshs 10.0 bn, with these funds channelled towards regional expansion. Following the agreement between the Central Bank of Kenya (CBK), Kenya Deposit Insurance Corporation (KDIC) and SBM Bank Kenya, 75% of the value of all moratorium deposits at Chase Bank will be transferred to SBM Bank Kenya. The remaining 25% will remain with Chase Bank Limited. This is a major milestone as this is the first successful instance, in the history of Kenya, of a bank being successfully brought out of receivership. Chase Bank was taken under receivership of the CBK in 2016, with customer deposits in excess of Kshs 100.0 bn. The acquisition will see SBM take control of the 62 Chase Bank branches, significantly increasing the bank's foothold in the country, and SBM Kenya's market share will rise to 2.4% from the current 0.2%. SBM Bank has injected Kshs 2.6 bn in Chase Bank, and is planning to inject a further Kshs 6.0 bn after the acquisition to revive the collapsed bank. In addition to this, the bank is expected to absorb majority of the 1,300 former employees of Chase Bank Limited. For more details on the acquisition and transfer of the moratorium deposits to SBM Kenya, see our Cytonn Weekly #16/2018.

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.