



Cytonn Monthly – July 2018

Private Equity

During the month of July, there was increased private equity activity from firms carrying out Fundraising, as well as in the Fintech and Financial Services sectors.

Fundraising

1. Musoni, a Microfinance Institution (MFI), which targets small-scale farmers and the informal sector, is set to issue Kshs 2.0 bn in debt notes through a private placement. The main targets are asset managers, trust management funds and high net-worth individuals. The move is aimed at shifting from foreign based funding to funding from local institutions in Kenya. The Kshs 2.0 bn debt notes will be used to grow the loan book, which stood at Kshs 18.0 bn. We are of the view that the debt will be priced at 16.0% p.a. for the 2-year debt note, and 17.0% p.a. for the 3-year debt note. It also seeks the local funding to offset exchange risk it will incur on paying back debt to foreign investors in their respective currencies. For more information, see our [Cytonn Weekly #26/2018](#)
2. Branch International, a mobile-based MFI operating in Kenya, Tanzania, Nigeria and California, raised Kshs 350.0 mn (USD 3.5 mn) in capital investment through an issuance of a second commercial paper that was arranged by Barium Capital, a capital-raising advisory firm owned by Centum Investments. The capital investment is expected to grow Branch's loan book as it expects to disburse Kshs 25.2 bn (USD 250 mn) in 2018 and plans to expand into new markets such as India. For more information, see our [Cytonn Weekly #27/2018](#)
3. Prime Bank, a mid-sized lender in Kenya, is in talks with private equity funds to sell an undisclosed stake. The bank which concluded a private placement of debt worth Kshs 1.0 bn in 2016, also got an extension of its credit facility valued at Kshs 1.4 bn, by The French Development Financial Institution, PROPARCO, the same year. The capital injection from the sale of the stake will be used to increase the banks capacity to support long-term loans to its clientele; the bank's loan book stood at Kshs 37.1 bn in March 2018.

According to the EMPEA (Emerging Markets Private Equity Association) Sub Saharan Africa Q1'2018 Insight, the private capital landscape is showing signs of improvement after a period of slow growth and currency volatility in some of the regions' leading economies. Fundraising in the region increased by 10% year on year, totalling to USD 493 mn. The current financing gap for SMEs in Sub Saharan Africa is an upwards of USD 70 bn as per the Enclude, ANDE and Shell Capital Foundation, and banks are aiming to close this gap by offering convenient access to debt. The growth of alternative channels of funding is important to the economy, since in Kenya, 95% of funding comes from the banking sector and only 5% from non-bank institutions funding.

Fintech

1. GreenTech Partners, a German investment firm, invested an undisclosed amount for an undisclosed stake in Bismart Insurance, a Kenyan insurance aggregator start-up. Insurance aggregators are digital platforms that collect information on various insurance products, their coverage, features and prices in order to avail them to consumers through their website and

mobile applications. It enables the consumers to select the best insurance products that meet their needs. For more information, see our [Cytonn Weekly #28/2018](#)

Financial Services Sector

1. Mauritius based SBM Holdings, a banking institution with headquarters in Port Louis, Mauritius, through its subsidiary SBM Kenya Limited, acquired certain assets and liabilities of Chase Bank after getting the approval of the Cabinet Secretary for the National Treasury. After the acquisition, SBM Kenya will assume 75% of the value of the deposits as well as take up majority of the branches and employees. The acquisition will also see SBM take control of 62 Chase Bank branches, significantly increasing the banks' foothold in the country. SBM has injected Kshs 2.6 bn in Chase Bank and is planning to inject a further Kshs 6.0 bn to revive the collapsed bank. For more information, see our [Cytonn Weekly #26/2018](#)
2. Badoer Investment Limited, a Dubai-Based investment firm, has bought a 15.6% stake in Sumac Microfinance Bank for Kshs 100.0 mn (USD 1.0 mn). Sumac Microfinance Bank is a Kenyan SME lender with a client base of 10,000 members and currently operates in Nairobi, Kiambu and Nakuru. The deal values Sumac Microfinance at Kshs 641.0 mn (USD 6.4 mn). The Microfinance Institution (MFI) currently has a loan book worth Kshs 1.0 bn (USD 10.0 mn). The capital injected will be used to grow its loan book and facilitate expansion in the region, with plans to open offices in Eldoret, Kisumu and Meru. For more information, see our [Cytonn Weekly #29/2018](#)

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.

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