Status of Rate Cap Review in Finance Bill, 2018, & Cytonn Weekly #32/2018

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-Old Mutual Holdings from 60.7% to 66.7%, in a deal to purchase a 6.0% stake in UAP-Old Mutual for GBP 24.0 mn (Kshs 3.1 bn). The transaction involved the acquisition of 12.7 mn shares of UAP-Old Mutual Holdings' Chairman Joe Wanjui (9.8 mn shares) and Director James Muguiyi (2.9 mn shares) at a price of Kshs 245.6 per share. The current transaction at Kshs 245.6 per share represents a 36.7% premium on the 2015 buyout price of Kshs 180.0 per share. Old Mutual first invested in UAP in January 2015 through two separate acquisitions:

i. The acquisition of 23.3% stake, an equivalent of 49.3 mn shares, from investment firm Centum and businessman Chris Kirubi, and,
ii. The combined acquisition of 37.3% stake, an equivalent of 78.9 mn shares, from AfricInvest, Abraaj and Swedfund.

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 revalued down the stake acquired by Kshs 9.7 bn. Following the adjustment, the post write-off acquisition transaction value dropped to Kshs 11.1 bn representing a P/B transaction multiple of 1.9x an indication that the deal was relatively overvalued in the market. This transaction led to UAP changing its name to UAP-Old Mutual Holdings.

At a price of Kshs 245.6 per share and book value per share of 90.0 as at December 2017, the acquisition will be carried out at a P/B multiple of 2.7x, which is a 30.3% premium on the average insurance sector transaction P/B multiple of 2.1x over the last seven-years, and almost double the last insurance transaction - the 1.3x multiple that Swiss Re paid for the Britam stake; the expensive transaction multiple indicates that the deal is relatively overvalued, which indicates that Old Mutual was keen to increase its stake. 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 (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	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

Insurance Sector Transaction Multiples over the Last Seven Years

No.	Acquirer	Insurance Acquired	Book Value (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/B	Date
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%	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
20	**Old Mutual plc**	**UAP Holdings (Wanjui & Muguiyi)**	**19.0**	**6.0%**	**3.1**	**2.7x****	**Aug-18**
	Harmonic Mean			**29.9%**		**2.1x**	
	Median			**55.9%**		**1.9x**	

-Proforma transaction multiple after goodwill impairment write-off
****-Excluded in the harmonic mean and median***

In the fundraising sector, investors in the Abraaj Growth Markets Health Fund (AGHF), a subsidiary of Abraaj Group, a Dubai-based private equity firm, venture capital and real estate investment firm have appointed AlixPartners, a US firm to oversee the separation of the health fund from Abraaj Group. The separation follows allegations of mismanagement of the USD 1.0 bn invested in the special purpose vehicle. AGHF, whose main investors are the Bill & Melinda Gates Foundation, World Bank's International Finance Corporation (IFC), Britain's CDC Group and Proparco Group of France has invested heavily in Kenyan clinics and hospitals, namely Nairobi Women's Hospital, Avenue Hospital, Metropolitan Hospital, and Ladnan Hospital.

The separation process in private equity companies arises due to mismanagement of funds and high levels of leverage. The separation process is important for investors since it ensures continuity and builds a stable platform for the future. In order to manage the funds invested and avoid instances of restructuring, private equity companies should;

i. Manage conflicts of interest in a way that is in the best interests of the funds,
ii. Establish and implement written policies and procedures to identify, monitor and appropriately mitigate conflicts of interest throughout the scope of business that the firm conducts,
iii. Make policies and procedures available to all fund investors both at inception of their relationship with the firm, and on an ongoing basis, and,
iv. Ensure that all disclosures provided to investors are clear, complete, fair and not misleading.

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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