

# Kenya Listed Banks H1'2018 Report, & Cytonn Weekly #36/2018

## Private Equity

Kuramo Capital, a New York based investment management firm focused on alternative investments in frontier and emerging markets, has acquired an additional 17.5% stake in GenAfrica Asset Managers Ltd from the management and staff of GenAfrica. GenAfrica Asset Managers, formerly known as Genesis Kenya Investment Management Limited, is an investment manager providing its services to retirement benefits schemes, endowment funds, and insurance companies. It manages separate client focused equity portfolios, investing in the public markets of Kenya. GenAfrica Asset Managers is based in Nairobi, Kenya with an additional office in Kampala, Uganda.

The additional investment brings Kuramo's total shareholding in GenAfrica to 90.8%, after Kuramo completed the purchase of a 73.4% stake from Centum Investments in August this year, with the remaining 9.2% remaining in the hands of management and staff of GenAfrica. Kuramo bought the additional stake on the same terms as the Centum transaction. According to Centum's 2018 Annual Report, their 73.4% stake in GenAfrica was valued at Kshs 2.3 bn, implying Kuramo bought the additional 17.5% stake from the management and staff for Kshs 554.2 mn. This values GenAfrica at Kshs 3.2 bn. GenAfrica had earnings of Kshs 134.2 mn for the year ending March 2018, implies that the last transaction was carried out at a P/E multiple of 23.6x. The high P/E multiple is an indicator that Kuramo sees value in the Assets Manager, especially in its management.

Kuramo earlier in the year also completed a transaction to acquire a minority stake in Kenyan investment bank Sterling Capital for an undisclosed amount. Another similar transaction that has been carried out in the past include the acquisition of a 100% stake in ApexAfrica Capital by Axys, a Mauritian private equity fund in 2015 for Kshs 470.0 mn, translating to a P/E multiple of 40.2x. The table below summarizes the details of the transactions:

Asset Manager Acquired	Seller	Acquirer	Earnings at Acquisition (Kshs mn)	Acquisition Stake	Transaction Value (Kshs mn)	P/E Multiple	Date
Apex Africa	Founding Shareholders	Axys (Mauritius)	11.7	100.0%	470.0	40.2x	Aug-15
GenAfrica	Centum Investments	Kuramo Capital	134.2	73.4%	2,324.2	23.6x	Aug-18
GenAfrica	Management and Staff	Kuramo Capital	134.2	17.5%	554.2	23.6x	Sep-18

The acquisition by Kuramo is driven by; (i) the expected growth of the equities market in Kenya and Sub-Saharan Africa, driven by product diversification, new listings, and continued investor interest fueled by existing low valuations in sections in the market such as the financial services, and (ii) the increasing number of institutional and retail investors in Kenya and Sub-Saharan Africa and the assets under their management. In Kenya, the retirement benefits assets under management grew

by 18.3% from Kshs 912.7 bn in 2016 to Kshs 1,080.1 bn in 2017 an indicator of the growing opportunity for asset managers in Kenya.

*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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