

Cytonn Q3'2018 Markets Review

Private Equity

Financial Services Sector:

Deals in the Financial Services sector during the quarter include;

1. Kuramo Capital, a New York based investment management firm focused on alternative investments in frontier and emerging markets acquired an additional 17.5% stake in GenAfrica Asset Managers Ltd from the management and staff of GenAfrica Asset Managers for Kshs 554.2 mn, effectively valuing the company at Kshs 3.2 bn. 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 earlier in the year also completed a transaction to acquire a minority stake in Kenyan investment bank, Sterling Capital for an undisclosed amount. For more information, see our [Cytonn Weekly #36/2018](#),
2. Old Mutual, a UK based international financial services group providing investment and savings, insurance, asset management and retirement solutions, increased 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 acquisition was carried out at a P/B multiple of 2.7x. The transaction multiple of 2.7x 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. For more information, see our [Cytonn Weekly #32/2018](#). 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 & Muguji)	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

3. Mauritius based African Rainbow Capital, an investment holding company that invests in financial service entities, agreed to acquire 90.0% stake in the Commonwealth Bank of South Africa Limited (CBSA), which trades as TymeDigital, from the Commonwealth Bank of

Australia. African Rainbow Capital currently holds a 10.0% stake in TymeDigital, whilst the Commonwealth Bank of Australia holds the remaining 90.0%. For more information, see our [Cytonn Weekly #30/2018](#), and

4. Badoer Investments Limited, a Dubai-based investment firm, bought a 15.6% stake in Sumac Microfinance Bank for Kshs 100.0 mn (USD 1.0 mn). The deal values Sumac Microfinance Bank at Kshs 641.0 mn (USD 6.4 mn). The funding will be mainly used as capital as it looks to grow its loan book and for expansion with plans to open offices in Eldoret, Kisumu and Meru, as the Microfinance Institution (MFI) moves to tap into the agribusiness market in Kenya. Sumac raised Kshs 330.0 mn earlier this year through debt comprising of Kshs 153.0 mn financing from Mexican fund manager Triple Jump, Kshs 102.0 mn from the Regional MSME Investment Fund for sub-Saharan Africa, Kshs 45.0 mn from the Development Bank of Kenya and Kshs 30.0 mn from the Micro Enterprise Support Programme Trust. For more information, see our [Cytonn Weekly #29/2018](#).

We expect that investors will continue to show interest in the financial services sector, motivated by attractive valuations, growth of financial inclusion and regulation that requires institutions to increase their capital requirements across the sector.

FinTech Sector:

Deals in the FinTech sector during the quarter include;

1. Paystack Payments Limited, a Nigeria-based FinTech company that processes payments for businesses in Africa, raised USD 8.0 mn (Kshs 806.3 mn) in Series A funding, the first round of financing given to a new business after the initial capital, used to start the business. The investment is expected to facilitate the expansion of Paystack across Africa and scaling up of its engineering team. This was the second time the company received funding after it received seed capital of USD 1.3 mn (Kshs 131.0 mn) in 2016 from international investors Tencent, Comcast Ventures, and Singularity Investments. For more information, see our [Cytonn Weekly #34/2018](#),
2. Jamii Africa, an InsurTech (Insurance Technology) company based in Tanzania, received an equity investment of USD 0.7 mn (Kshs 70.6 mn) for an undisclosed stake from US-based entrepreneur, Patrick Munis, drawing the enterprise a step closer to its target of USD 2.0 mn (Kshs 201.7 mn), a benchmark set to facilitate its efforts to expand into Kenya. In February this year, The Groupe Spécial Mobile (GSM) Association, an association that represents the interests of mobile operators worldwide, through its Mobile for Development Team and as part of the GSMA Ecosystem Accelerator Innovation Fund, announced that it had granted Jamii an undisclosed amount of funding as part of its start-up portfolio. Jamii Africa also closed a USD 0.75 mn (Kshs 75.6 mn) round of seed funding in early 2017, split equally between grants and venture capital. For more information, see our [Cytonn Weekly #31/2018](#),
3. Lendable, a FinTech platform based in Kenya and the US, secured a Kshs 45.3 mn (USD 0.45 mn) convertible grant from the Dutch Government's Micro and Small Enterprise Fund (MASSIF), managed by FMO, the Dutch Development Bank. This grant is expected to unlock an additional Kshs 452.7 mn (USD 4.5 mn) from commercial investors to fund alternative lenders. In October last year, the firm announced that it had raised Kshs 671.0 mn (USD 6.5 mn) in a Series A round of investment. In April last year, the firm also secured Kshs 56.6 mn (USD 0.55 mn) debt financing for Raj Ushanga House (RUH), the Kenya distributor for Azuri Technologies Ltd, a leading provider of Pay-as-you-go (PayGo) solar energy solutions. For more information, see our [Cytonn Monthly - August 2018](#),
4. German investment firm, GreenTec Capital Partners, invested an undisclosed amount for an undisclosed stake in Bismart Insurance, a Kenyan insurance aggregator start-up. The capital investment is expected to facilitate upscaling of Bismart's digital platform to reach more

clients and secure a strong foothold as the first Pan African blockchain - powered insurance aggregator. Founded in 2017, Bismart Insurance leverages cutting-edge technology to provide a digital interface to connect their customers to the best insurance services and investment solutions in the market. The company aims to provide transparency in the insurance process in a bid to increase the insurance penetration level in Kenya and across Africa. In April this year, the company received seed capital of Kshs 1.0 mn (USD 10,000.0) from Standard Chartered's Women in Tech Program. For more information, see our **Cytonn Weekly #28/2018**,

5. Branch International, a mobile-based microfinance institution headquartered in California, with operations in Kenya, Tanzania and Nigeria, raised Kshs 350.0 mn (USD 3.5 mn) in capital investment based on its second issued commercial paper in the Kenyan market. The capital investment arranged by Barium Capital, a capital-raising advisory firm owned by Centum Investments, is expected to grow Branch's loan book and expand its financial services and lending products in Kenya. For more information, see our **Cytonn Weekly #27/2018**. Earlier in April this year, Branch International raised USD 70.0 mn in Series B funding, which combined USD 50.0 mn in debt and USD 20.0 mn in equity for an undisclosed stake. The funds will enable the mobile loan app company to expand its services beyond credit access, to savings and payments, and to start operations in India. For more information, see our **Cytonn Weekly #15/2018**,
6. Musoni, a Kenyan microfinance institution, issued out Kshs 2.0 bn in debt notes with a tenor of 2-3 years and offering investors a chance to roll over funds instead of cashing in at maturity. The issue of the debt notes is to take place in four tranches of Kshs 500.0 mn each. 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. For more information, see our **Cytonn Weekly #26/2018**,
7. Jumo, an emerging market technology start-up that offers credit to individuals, small businesses and banks, announced the close of an equity funding round of USD 52.0 mn led by Goldman Sachs, with participation from other leading investors including Proparco, Finnfund, Vostock Emerging Finance, Gemcorp Capital, and LeapFrog Investments. The funds raised will be used to further Jumo's growth and expansion into new markets. Founded in 2014, Jumo provides financial infrastructure and products designed to reach part of the population underserved or excluded from the traditional financial services. Jumo currently operates in Africa (Ghana, Kenya, Rwanda, South Africa, Tanzania, Uganda and Zambia), Asia (Pakistan and Singapore) and Europe (United Kingdom). In April this year, France-based Proparco, the private sector financing arm of the French Development Agency (Agence Française de Développement) announced an equity investment of USD 3.0 mn in JUMO as part of the Fintech firm's strategy to expand into the Asian (Pakistan) market. For more information, see our **Cytonn Weekly #14/2018**.

We expect that investors will continue to show interest in the FinTech sector in Sub-Saharan Africa as more businesses seek to enhance efficiency and reduce costs by incorporating technology in their operations.

Education Sector

Deals in the Education sector during the quarter include;

1. Fanisi Capital, a private equity and venture capital firm that focuses on healthcare, education, consumer goods, and agriculture, agreed to invest Kshs 400.0 mn in Kitengela International School (KISC), with an initial injection of Kshs 205.0 mn for an undisclosed stake. The school which opened its doors in January 2009, with an 8-4-4 curriculum, having both a mixed day and boarding primary school, and a girls' high school, has an ambitious strategy to triple the number of students, which is currently 1,000 in its four institutions, and to open two more schools over the next five-years. In 2011, Fanisi Capital acquired a

55% stake in Hillcrest International School after settling the Kshs 620.0 mn debt the school owed to Barclays Bank of Kenya with a consortium of investors, making KISC their second investment in the education sector. For more information, see our **Cytonn Weekly #35/2018**, and

2. Half year financial results released by Advtech Group, a private education provider listed on the Johannesburg Stock Exchange, indicate that the company acquired 71.0% of Makini School Limited from Schole Limited for a consideration of ZAR 130.8 mn (Kshs 1.0 bn). Earlier in April this year, Schole Limited, a London based education provider acquired 100.0% stake of Makini Schools for an undisclosed amount. The total value of the Makini School Limited buyout amounted to ZAR 184.2 mn (Kshs 1.5 bn) of which ZAR 157.7 mn (Kshs 1.3 bn) was goodwill accounting for 85.6% of the value. Property, plant and equipment was valued at ZAR 15.6 mn (Kshs 124.0 mn) accounting for 8.5% of the transaction value. For more information, see our **Cytonn Weekly #34/2018**.

We expect that investors will continue to show interest in the Education sector in Sub-Saharan Africa mainly as a result of the (i) increasing demand for quality and affordable education, with the Gross Enrolment Ratio (GER) having doubled in the last 10-years to 8.5% in 2016 from 4.5% in 2006 according to a report, “The Business of Education in Africa” by Caerus Capital, and (ii) support, such as ease of approvals, offered to investors in the education sector by governments looking to meet Sustainable Development Goals (SDGs) targets of universal access to tertiary education.

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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