Cytonn Corporate Governance Report - 2018, & Cytonn Weekly #39/2018

Private Equity

Filimbi Limited, an investment vehicle owned by Peter Munga and Jane Njuguna (the wife of Equity Bank's CEO, James Mwangi), has sold 39.5 mn shares of Britam Holdings, a diversified financial services group with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Malawi and Mozambique, in the eight-months ending August 2018. This has reduced its stake in the insurance company to 18.9 mn shares, worth Kshs 209.8 mn, at the current market price of Kshs 11.1 per share and representing 0.9% of shareholding, from 58.4 mn shares. Using the average share price for the last eight-months ending August 2018, which is Kshs 13.5 per share, the implied value of the transaction is Kshs 533.2 mn. This the second sale of Britam Holdings shares by this investment vehicle, as it initially owned 90.0 mn shares and sold off 31.6 mn in 2013 at a value of Kshs 260.0 mn implying a price of Kshs 8.2 per share at the time.

Investor Peter Munga has been reducing his investment in Britam Holdings, in a series of sales, through his various investment vehicles, in line with his deadline of August 2018 to dispose of the 452.5 mn shares that he acquired in 2016, for an undisclosed price, from the company's former director Dawood Rawat. The business mogul had acquired these shares through his investment vehicle, Plum LLP, and he was to temporarily hold on to the shares to eliminate investor uncertainty arising from Mr. Dawood's troubles. Additionally, this would give Britam and its shareholders enough time to identify a suitable investor. Mr. Munga bought these shares from the Mauritius Government, that had seized Mr. Dawood's assets after he was accused of running a USD 693.0 mn (Kshs 69.3 bn) Ponzi scheme in Mauritius. Earlier this year, June 2018, Mr. Munga's Plum LLP sold 348.5 mn shares to Swiss Re, a leading reinsurance company based in Zurich, Switzerland. This was all of Plum LLP's shareholding in Britam Holdings.

Over the last two-years, Britam Holdings has experienced shifts in its shareholding characterised by major transactions. The most notable of these transactions are:

i. In March 2017, International Finance Corporation (IFC), the private sector arm of World Bank Group, subscribed for 224.2 mn shares at a price of Kshs 15.9 per share, bringing their total investment to Kshs 3.6 bn, and a stake of 10.4%. For more information, see International Finance Corporation invests in Britam
ii. In September 2017, AfricInvest III, a Special Purpose Vehicle (SPV) managed by AfricInvest Capital Partners Management II, subscribed for 360.9 mn shares at Kshs 15.9 per share, bringing the total investment to Kshs 5.7 bn and a stake of 14.3%. For more information, see our Cytonn Weekly #21/2018, and AfricInvest III invests in Britam
iii. In June 2018, Plum LLP sold its 13.8% stake in Britam Holdings to Swiss Re, a reinsurance company with offices in over 25 countries. This transaction saw Swiss Re acquire 348.5 mn shares for Kshs 4.8 bn. For more information, see our Cytonn Weekly #24/2018

The recent transaction in Britam Holdings by IFC, Swiss Re and AfricInvest shows confidence by global investors in the insurance giant's future prospects and this will help raise its profile internationally.

In fundraising, AfricInvest, a leading Pan-African private equity firm with a focus on agribusiness, financial services, healthcare, education and commercial sectors, has announced the second close of Financial Inclusion Vehicle (FIVE), a platform for investing in financial services in Africa. Its objective is to contribute towards improving access to financial services for the growing population in Africa by investing tier II and tier III financial institutions in Africa, as currently the banking penetration in Africa is still low at 20.0% compared to 69% globally. The close brought in an aggregate commitment of EUR 31.0 mn (Kshs 3.6 bn), bringing the total commitments to EUR 61.0 mn (Kshs 7.1 bn), with the first close having brought in EUR 30.0 mn (Kshs 3.5 bn). Their target commitments for this close was not disclosed. The second close brought in Norfund (the Norwegian Development Finance Institution), IFU, (the Danish investment fund for investing in Developing Countries), and the Central Bank of Kenya Pension Fund. The individual commitments for Norfund, IFU and Central Bank of Kenya Pension Fund were not disclosed.

The first close was announced in December 2017, with Dutch Development Bank (FMO) and Belgian Investment Company for Developing Countries (BIO), the development finance institutions for Netherlands and Belgium, being the anchor investors for the fund with commitments of EUR 20.0 mn (Kshs 2.3 bn), and EUR 10.0 mn (Kshs 1.2 bn), respectively. FMO will increase its investment further by EUR 10.0 mn (Kshs 1.2 bn), once commitments of up to EUR 70.0 mn (Kshs 8.2 bn), have been signed by the Fund.

The Fund targets to raise EUR 200.0 mn (Kshs 23.4 bn), to be attained in the next three to five-years and it aims at a third closing in the next few months that will bring in Africa Development Bank and other institutional investors who have confirmed their commitment to the Fund. AfricInvest has 18 private equity funds with USD 1.2 bn (Kshs 121.1 bn) worth of funds under management. It has made investments in over 140 companies and exited over 80 investments. Some of the investments made by AfricInvest in Kenya include:

AfricInvest Private Equity Investments

No	Company	Sector	Country	Stake Acquired	Amount Invested (Kshs bn)	Status
1.	UAP Group	Financial Services	Kenya	37.3%	14.2	Realized
2.	Brookhouse School	Education	Kenya	30.0%	0.4	Realized
3.	Family Bank	Financial Services	Kenya	Not Disclosed	1.0	Realized
4.	Silafrica Plastics Packaging Limited	Plastics and Packaging	Kenya	Not Disclosed	Not Disclosed	Current
5.	Britam Holdings	Financial Services	Kenya	14.3%	5.7	Current

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-Saharan Africa. Going forward, the increasing investor interest and a stable macroeconomic environment will continue to boost deal flow into African markets.