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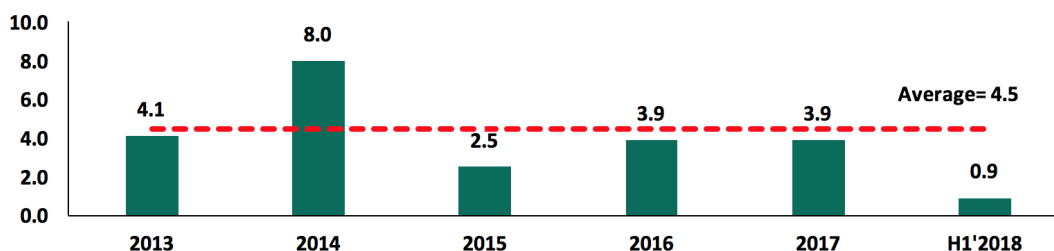


# Nairobi Metropolitan Area Infrastructure Report 2018, & Cytonn Weekly #41/2018

## Private Equity

African Private Equity and Venture Capital Association (AVCA) released the African Private Equity Data Tracker brief for H1'2018, which presents the African Continent's private equity ('PE') activity for the first half of the year. According to the report, the total value of reported African private equity deals in H1'2018 was USD 0.9 bn, a 10.0% drop from USD 1.0 bn reported in H1'2017. In terms of the share of deal value, the utilities sector was the largest sector in H1'2018, coming in at USD 0.3 bn or 37.0% of total value of deals, up from only USD 30.0 mn (3.0% of total value of deals) in H1'2017. The financial services sector's deal volume share increased to USD 144.0 mn (or 16.0% of the total deal volume) in H1'2018 from USD 100.0 mn (or 10.0% of the total deal volume) in H1'2017.

**Total Value of African Private Equity Deals by Year (USD bn)**

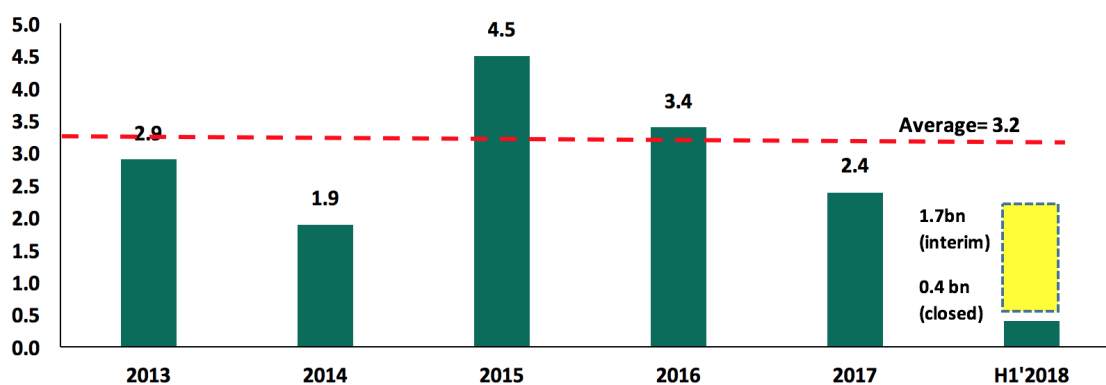


Year	Total Value (USD bn)
2013	4.1
2014	8.0
2015	2.5
2016	3.9
2017	3.9
H1'2018	0.9
<b>Average</b>	<b>4.5</b>

Source: AVCA

In regard to fund raising, the total value of African PE fundraising in H1'2018 was USD 2.1 bn, comprised of USD 1.7 bn in interim (as highlighted in the yellow column below) and USD 0.4 bn in final closes. This is an improvement compared to the total value fundraising in H1'2017, which was reported at USD 2.0 bn.

### Total Value of African Private Equity Fundraising by Year of Final Close (USD bn)



Source: AVCA

The key private equity funds that closed (not allowing new investments) during H1' 2018 are highlighted below;

#### Selection of PE funds that announced a close in 2018 H1

Fund Manager	Fund Name	Status	Reported Close Amount (USD mn)	Regional Focus	Sector Focus
Cepheus Growth Capital Partners	Cepheus Growth Capital Fund	First Close	51.0	East Africa	Generalist
Inspired Evolution Investment Management	Evolution II	Second Close	124.5	Sub-Saharan Africa	Energy
Investec Asset Management	Growthpoint Investec African Properties	First Close	212.0	Pan-Africa	Rela Estate
Partech	Partech Africa Fund	First Close	57.0	Pan-Africa	Generalist (Technology)

Source: AVCA

#### Outlook:

Back-to-back years of struggles across 2016 and 2017 caused by macroeconomic headwinds hitting two of the continent's most developed PE markets, namely; South Africa and Nigeria coupled with a slump in oil prices negatively affected private investments. Policy shocks, such as the interest rate caps in Kenya, Africa's third largest developed PE market, slowed credit growth, which also had a negative effect. Despite this, we view the long-term growth trajectory for PE as positive, supported by an expected shift in investor sentiment. We expect this growth to be driven by the following key factors;

1. **Economic Growth:** According to the World Bank, GDP growth in Sub-Saharan Africa rebounded to 2.4% in 2017, after slowing sharply to 1.3% in 2016. Growth in the region is projected to continue to rise to 3.1% in 2018 and an average of 3.6% in 2019-20, on the back of firming commodity prices and gradually strengthening domestic demand, According to IMF analysis, private investment increases when GDP growth is high; a 1%-point increase in GDP growth rates leads to 0.21% points increase in the private investment rate. We expect this positive correlation to hold and as a result, private equity activity is set to improve,

2. **Political Stability.** According to IMF data, reforms that strengthen the judiciary and regulatory environment are crucial for promoting private investment during periods of strong economic growth. Democratic elections have passed in multiple African countries, including Angola, which saw its first transfer of power to the opposition party since peacetime in 2002. This should provide investors in those countries with much greater confidence than in previous years, and,
3. **Economic recovery in West Africa.** Improvements in commodity prices combined with the regions expected economic recovery will drive further investment in West Africa. Private equity investors and other state players, such as China, will also benefit from a potential uptick in public sector spending on important infrastructure works, and we may see greater appetite for Private Public Partnerships (PPPs) and general private capital in government-led projects.

***Despite the recent slowdown in growth, we maintain a positive outlook on private equity investments in Africa as evidenced by the increasing investor interest, which is attributed to; (i) Economic growth, which is projected to improve in Africa's most developed PE markets , (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, and, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets. Going forward, the increasing investor interest, stable macro-economic and political environment will continue to boost deal flow into African markets***

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