Cytonn Monthly – October 2018

Private Equity

During the month of October, there was private equity activity from firms carrying out Fundraising and in the Financial Services sector, as well as the release of major private equity reports.

Financial Services Sector

1. Filimbi Limited, an investment vehicle owned by Peter Munga and Jane Njuguna, 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 reduced its stake in the investment company to 18.9 mn shares, worth Kshs 195.6 mn, at the current market price of Kshs 10.4 per share and representing 7.8% of shareholding, from 58.4 mn shares. Using the average share price for the last eight-months ending August 2018 of 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. For more information, see our Cytonn Weekly #39/2018

Fundraising

1. AfricInvest, a leading Pan-African private equity firm with a focus on agribusiness, financial services, healthcare, education and commercial sectors, announced the second close of the Financial Inclusion Vehicle (FIVE), a platform for investing in financial services in Africa. 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 were 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 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. For more information, see our Cytonn Weekly #39/2018

Fintech

1. PayPal Holdings Inc, a California-based technology company that offers digital and mobile payments solutions to customers worldwide, made a strategic investment in Tala, a California based financial technology startup that lends to underserved consumers in emerging markets, for an undisclosed amount. The investment will help Tala bring visibility and access to underserved populations in emerging markets across the globe. Tala currently operates in Kenya, Tanzania, the Philippines, and Mexico. Tala has also launched a pilot programme in India. Tala, which can be accessed by anyone with an Android smartphone in markets where Tala operates, analyzes device and behavioral data to instantly underwrite these consumers and create a personalized loan offer. Tala offers loan amounts between Kshs 1,000.0 and Kshs 50,000.0, at weekly and monthly interest

rates of 11.0% and 15.0%, respectively, to a mobile wallet or via a payment method of the customers' choice. The company has delivered more than Kshs 50.1 bn (USD 500.0 mn) in credit. The new investment builds on Tala's Series C financing, announced in April and led by Revolution Growth, for more information see our Cytonn Weekly #16/2018.

In Kenya, Kshs 3.4 tn was transacted via mobile cash in 2016 compared to Kshs 2.8 tn in 2015 due to the rise in the number of mobile lending apps. Kenyans, in particular small and micro entrepreneurs, are increasingly turning to these mobile lending solutions to access digital micro-loans mainly for short-term working capital.

The continued increase in investments and funding of mobile lending apps is in a bid to grow the institutions loan books and aid in their expansion. In 2017, USD 200.0 mn (Kshs 20.3 bn) was raised for Fintech businesses in East Africa, of which 98% of funds raised went to Kenyan companies. This is an indicator of the positive investor sentiment in the sector. We expect the demand for mobile loans to increase and this will be driven by; (i) rapid growth of smartphone adoption in the African market with Kenya surpassing 40 mn mobile subscriptions in 2017, (ii) affinity for mobile money in Kenya as 60% of Kenyans have a mobile banking account and receive 90% of remittances through a mobile device, (iii) the convenience and accessibility to these loans that have a fast processing time, no paperwork or collateral and no late or rollover fees and, (iv) Kenyan banks hesitance to lend to smaller, untested businesses, due to the interest rate cap.

Reports:

1. The African Private Equity and Venture Capital Association (AVCA) and PwC released a report on private equity-backed IPOs (exit of private equity firms from companies through means of an Initial Public Offer) in the African region. This study spanned a period of 8-years from 2010 to 2017, and sought to analyse the growing trend of companies that have had PE backed IPOs. In the period from 2010 to 2017, there was a total of 187 IPOs, with 28 in 2017, a 17.0% increase from the 24 IPOs in 2016. However, most IPOs in the region have been non-private equity backed, with private equity backed IPOs over the period constituting 14.3% of total IPOs, compared to an average of 39.0% and 36.0% for the United States and the United Kingdom, respectively. The Johannesburg Stock Exchange tied with the Bourse de Tunis in Tunisia in terms of number of IPO exits for PE firms, each having 9 PE backed IPOs over the period, followed by the Bourse de Casablanca in Morocco, which had 4 PE-backed IPOs over the period. For more information, see our Cytonn Weekly #38/2018
2. Data released by the Retirement Benefits Authority (RBA) showed that investments in alternative assets by pension schemes in Kenya gained traction, with the inclusion of Private Equity & Venture Capital and REITs as separate classes in the regulations with Private Equity constituting 0.04% of the Kshs 1.2 tn total assets under management. Over one year to June 2018, pension funds increased their investments in Private Equity by 68.0% to Kshs 0.4 bn in June 2017 from Kshs 0.3 bn in June 2016. Over the six months to June 2018, pension funds' investment in Private Equity grew by 31.3% to Kshs 0.4 bn in June 2018 from Kshs 0.3 bn in December 2017, with the number of pensions, which have invested in PE firms growing to thirteen from two in 2015. This highlights the growing appetite for investments in the Private Equity sector as investors seek higher returns. For more information, see our Cytonn Weekly #40/2018
3. 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. For more information, see our Cytonn Weekly#41/2018

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.
