

## Nairobi Metropolitan Area Mixed-Use Developments (MUDs) Report 2018, & Cytonn Weekly #44/2018

## **Private Equity**

In the financial services sector, TransCentury, a Kenyan-based Investment firm with focus in infrastructure has rolled over USD 3.5 mn (Kshs 360.2 mn) worth of short-term loans by one year. The loan was taken from Kuramo Capital, a New York- based investment management firm focused on alternative investments in frontier and emerging markets. The loan was acquired through three separate transactions:

- A USD 1.8 mn (Kshs 185.2 mn) loan issued February 2017 at an interest rate of 6.0% and is due December 2018. The loan is secured by a charge of 56.7 mn ordinary shares of East African Cables which have a current market value of Kshs 153.1 as at November 16,2018,
- ii. A USD 1.2 mn (Kshs 123.5 mn) loan issued June 2017 at an interest rate of 5.0% and was due July 2018. The loan is secured by a similar number of shares (56.7 mn shares) in East African Cables which have a current market value of Kshs 153.1 mn as at November 16, 2018, and,
- iii. A USD 0.5 mn (Kshs 51.5 mn) loan issued in October 2017 at an interest rate of 5.0% and matures in December 2018. The loan is secured by a charge of 0.1 mn ordinary shares of Tanelec Limited.

This comes after the Capital Markets Authority called out TransCentury and its subsidiary East African Cables, which are currently operating in a negative working capital position contrary to the rules governing issuers at the Nairobi Securities Exchange (NSE). The extension allows cash strapped TransCentury time to further clean up its books. Failure to settle the loan by TransCentury will result in Kuramo Capital acquiring stakes in the subsidiaries (East African Cables and Tanelec), adding to the 25.0% stake Kuramo Capital owns in TransCentury. Currently TransCentury owns 68.4% stake in EA Cables and defaulting of the loan will lead to Kuramo Capital acquiring 30.9% stake of TransCentury in EA Cables.

In another transaction, Kenyan Tier 3 bank Sidian Bank has secured Kshs 235.0 mn from the East African Development Bank (EADB) for lending to small and medium enterprises (SMEs) in the agribusiness sector across the country. The loan will run for eight-years at an undisclosed rate and comes with technical assistance through capacity building to equip the bank's staff with skills on best practices for agribusiness financing. The East African Development Bank (EADB) is a development finance institution established in 1967 with the objective of providing financial support to the member countries of the East African Community. The EADB's loan portfolio is well distributed, but more than 60.0% of its lending is to projects in health and education, hotels and tourism, construction and building, electricity and water, and agriculture. The partnership will enable Sidian Bank to expand its financing to farmers, enterprises, producer organisations as well as those in the agribusiness value chain. Kenyan banks have, in recent years, taken on substantial loans from international financiers including International Finance Corporation (IFC), European Investment Bank and the African Development Bank (AfDB). Previously, Equity Group, Co-operative

Bank, Diamond Trust Bank, Stanbic Holdings and KCB Group have borrowed from international financiers mainly to finance their onward lending businesses. This is as highlighted in the table below;

## **International Loans to Kenyan Banks**

	Issuer	Bank	Issue Date	Amount of Loan (Kshs bn)	Term of Credit
1.	Africa Development Bank	Kenya Commercial Bank	Oct-17	10.4	Not specified
2.	IFC	I&M Holdings	Jan-18	1.0	Not specified
3.	IFC	Cooperative Bank	Feb-18	15.2	7-years
4.	Africa Development Bank	Diamond Trust bank	Mar-18	7.5	7-years
5.	SwedFund	Victoria Commercial Bank	Apr-18	0.5	Not specified
6.	14 financial Institutions (syndicated)	Stanbic Bank	May-18	10.0	2,3 years
7.	FMO	I&M Holdings	Oct-18	4.0	Not Specified
8.	Africa Development Bank	Sidian Bank	Nov-18	0.3	8-years
	Total			48.8	

The asset-liability mismatch by tenor due to the relatively long-term nature of loans and short-term nature of deposits exposes a gap that banks have chosen to fill with credit from the international financiers.

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 macroeconomic and political environment will continue to boost deal flow into African markets.

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