Cytonn Monthly – November 2018

Private Equity

During the month of November, there was private equity activity in the financial services, FinTech and education sectors.

Financial Services Sector:

1. TransCentury, a Kenyan-based investment firm, with a focus in infrastructure, rolled over USD 3.5 mn (Kshs 360.2 mn) worth of short-term loans by 1-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:
    i. A USD 1.8 mn (Kshs 185.2 mn) loan issued in February 2017 at an interest rate of 6.0% p.a. and is due in December 2018. The loan is secured by a charge of 56.7 mn ordinary shares of East African Cables,
    ii. A USD 1.2 mn (Kshs 123.5 mn) loan issued in June 2017 at an interest rate of 5.0% p.a. and was due July 2018. The loan is secured by a similar number of shares (56.7 mn shares) in East African Cables, and,
    iii. A USD 0.5 mn (Kshs 51.5 mn) loan issued in October 2017 at an interest rate of 5.0% p.a. and matures in December 2018. The loan is secured by a charge of 0.1 mn ordinary shares of Tanelec Limited. Tanalec is a leading manufacturing company in the Power and Energy Sector, supplying transformers and switchgears across Africa and is based in Tanzania.

This comes after the Capital Markets Authority (CMA) 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). For more information, see our Cytonn Weekly #44/2018.

2. Kenyan Tier 3 Sidian Bank 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. 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) for SME lending. 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 highlighted below:

International Loans to Kenyan Banks

Issuer	Bank	Issue Date	Amount of Loan (Kshs bn)	Term of Credit

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 and 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**	

Source: Cytonn Report

For more information, see our Cytonn Weekly #44/2018.

FinTech:

1. MFS Africa, a Pan-African FinTech company founded in 2009, headquartered in Johannesburg, South Africa, announced the close of its second round of Series B funding, raising equity totaling to USD 14.0 mn (Kshs 1.4 bn). The funding was from a consortium of investors, who participated in undisclosed portions led by LUN Partners Group, a Shanghai-based global investment management group, Goodwell Investments, an Amsterdam based investment firm, ShoreCap III, a private equity fund managed by US-based Equator Capital Partners, and UK-based FSD Africa, bringing the total round of funding to USD 14.0 mn. The total equity raised of USD 14.0 mn is for the expansion of its mobile financial services (MFS) into additional areas in Africa, starting with Mauritius, Rwanda, Tanzania, Uganda and Kenya. For more information, see our Cytonn Weekly #43/2018.
2. South African private equity firm, Ethos, announced a USD 49.0 mn (Kshs 5.0 bn) investment into Channel VAS, a FinTech provider that specializes in data analytics, airtime credit services and mobile financial services. The stake acquired in this transaction has however not been disclosed. This investment was the first to be made by the firm’s new buyout fund, Ethos Fund VII, which has set the trend for the firm’s increasing investments towards technology, with the fund set to invest alongside the firm’s specialized Artificial Intelligence Fund. The fund is targeting USD 563.0 mn (Kshs 57.7 bn) in capital from local and international investors, having already raised USD 141.0 mn (Kshs 14.5 bn), with the second round of USD 322.0 mn (Kshs 33.0 bn) by Q1’2019. For more

information, see our Cytonn Weekly #43/2018.

3. BitPesa, a Kenyan digital currency exchange and payments company, has secured USD 5.0 mn (Kshs 512.8 mn) in funding from Sompo Holdings, a Japanese insurance group that provides property and casualty insurance, life insurance, other financial services in Japan and internationally, in return for an undisclosed stake in the business. The deal is expected to revolutionize cross-border payments and insurance services globally. BitPesa was launched in 2013 and has expanded into other African countries including Ghana, Morocco, Nigeria and Uganda. Since 2015, BitPesa has raised over USD 12.6 mn (Kshs 1.3 bn) with USD 7.6 mn (Kshs 779.4 mn) raised through three funding rounds as follows:

- In 2015, BitPesa raised USD 1.1 mn led by Pantera Capital Management LP and Crypto Currency Partners LP,
- In February 2017, BitPesa raised USD 2.5 mn led by Draper VC and Greycroft Partners, and,
- In August 2017, BitPesa raised USD 4.0 mn led by Greycroft, a majority existing shareholder.

Sompo will use BitPesa's technology to extend its presence in the international remittance service market and use it for its insurance services. The two firms aim to solve international remittance and cross-border payment obstacles by reducing international remittance fees and lengthy processing times to facilitate global trade and contribute to macro-economic development.

Education:

UNICAF, the largest online higher education platform in Africa, announced a USD 28.0 mn Series B financing. The new investment round is led by Goldman Sachs, with other participants in the round being existing investors, including the UK Government's Development Finance Institution, CDC Group, leading higher education fund, University Ventures, and the Educational Excellence Corporation Ltd (EDEX), the Founder of the University of Nicosia and UNICAF. The funds are to meet the growing demand for high-quality university education across Africa. The new funding will enable UNICAF to grow enrolment to over 100,000 students, expand the program offering and open as many as five additional African campuses in the next five-years. For more information, see our Cytonn Weekly #45/2018.

Fundraising:

1. Catalyst Principal Partners, a Kenyan private equity firm specializing in growth, emerging growth, expansion, buyout, recapitalization, acquisition, replacement capital, and pre-IPO investments in medium-sized companies, has raised USD 155.0 mn (Kshs 15.9 bn) in its second round of funding. The capital was mainly from local pension funds and international investors. The capital raised will target USD 7.5 mn - USD 22.5 mn range of investments, targeting companies in Kenya, Uganda, Tanzania, Ethiopia, Zambia, Rwanda and the Democratic Republic of Congo. They mainly focus on consumer goods and retail, financial and business services, industrials, manufacturing and value-add processing, technology and communication sectors. Founded in 2009, Catalyst Principal Partners secured their first funding in November 2012 of USD 125.0 mn (Kshs 12.8 bn) under Catalyst Fund I. They have made investments in a range of companies with the most recent in May & April 2017, when they invested in Britania Foods Limited and Kensta Group, respectively. For more information, see our Cytonn Weekly #43/2018.
2. Centum Investment Group plans to raise between Kshs 40.0 bn and Kshs 50.0 bn in a fresh private equity fund as the company aims to cut finance costs from expensive borrowings. On the fund, Kshs 30.0 bn to Kshs 35.0 bn of this amount will be sourced from high net worth individuals and institutions such as pension schemes, with the additional Kshs 10.0 bn to Kshs 15.0 bn coming from its internal revenue source. The fund will be largely deployed in mature cash generative businesses and marketable securities such as government securities and equities. In 2015, Centum Investment issued out a Kshs 6.0 bn Commercial Paper, the proceeds of which were invested in the financial services sector, energy sector and real estate as follows;

Centum Investment sectors from the Commercial paper

No.	Sector	Companies Invested	Nature of Investment	Bonds Proceed (Kshs "mn"	Current Stake
1.	Financial Services	Sidian Bank	Equity Investment	3,600	77.0%
2.	Energy	Akiira One Geothermal Limited	Equity Investment	2,100	51.0%
		Amu Power Limited			37.5%
3.	Real Estate	Pearl Marina Estates Limited	Equity Investment	222	100%
4.	Offer Expenses			78	
	Total			**6,000**	

Source: Centum HY'2018 Investor Briefing

Centum's private equity business reported a 200.0% profit growth to Kshs 1.5 bn in HY'2018 from Kshs 0.5 bn recorded in HY'2017. This growth was mainly driven by Centum's disposal of the Company's stake in GenAfrica Asset Managers Limited, which saw the Company realize gains of Kshs 1.2 bn, with Kshs 1.1 bn being the initial investment and Kshs 2.3 bn being the exit proceeds.

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.