



Nairobi Metropolitan Area Serviced Apartments Report - 2018, & Cytonn Weekly #47/2018

Private Equity

Kenyan Microfinance Institution (MFI) Sumac received a USD 2.0 mn (Kshs 204.9) loan from US-based Social Investment Managers & Advisors (SIMA) to boost its loan portfolio in areas such as off-grid solar products. The loan will help the lender to break its financial constraints and expand the loan book to reach new customers. SIMA is a social asset manager focused on offering commercial capital and appropriate advisory to bottom of the pyramid clients.

The loan continues Sumac's recent funds mobilization:

- I. In July 2018, Badoer Investments Limited, a Dubai-based investment firm, bought a 15.6% stake in Sumac for Kshs 100.0 mn (USD 1.0 mn). The deal valued the MFI at Kshs 641.0 mn (USD 6.4 mn) as analyzed in our [Cytonn Weekly #29/2018](#), and,
- II. In February 2018 Sumac mobilized Kshs 375.0 mn in debt financing (Kshs 153.0 mn from Mexican fund manager Triple Jump, Kshs 102.0 mn from the Regional MSME Investment Fund for Sub-Saharan Africa, Kshs 45.0 mn from the Development Bank of Kenya, and Kshs 30.0 mn from the Micro Enterprise Support Programme Trust).

This funding boost is set to support Sumac's expansion, which has seen market share increase from 0.9% in 2013 to 1.7% in 2017 according to the CBK Banking Survey. Net loans have grown by 205.0% to Kshs 623.0 mn, from Kshs 204.0 mn over the same period.

The transaction highlights global capital interest in micro lending in sub Saharan Africa. Increase in credit lending agencies in Kenya, especially the digital platforms, have diversified the source of funds in the country, which has enabled borrowers to tap into alternative avenues of funding that are more flexible and pocket friendly. Bank funding in Kenya consists of 95.5% of all credit to the private sector with 40.0% being the developed economies average, highlighting the need to diversify funding sources to alternative channels. The interest rate cap has made it even more difficult for risky clients especially SMEs to acquire funding (the current private sector credit growth is at 2.8%, against a 5-year average of 14.0%) thus driving more clients from commercial banks to Microfinance Institutions.

African Private Equity and Venture Capital Association (AVCA) released their 2018 Annual Limited Partner Survey. The study looks into the plans, views, preferences, expectations and evolving attitudes of 60 Limited Partners (LPs) from Africa, Asia, Europe and North America regarding Private Equity (PE) in Africa. LPs' appetite for African PE has remained steady, with 53% of LPs planning to increase their PE allocation on the continent over the next three years.

In terms of exposure, 53% of LP's plan to increase their allocation to African PE over the next three years. Of these, 97% are currently invested in PE funds in Africa, and are mainly Development

Finance Institutions (33%) and Fund-of-funds (20%). By location, whilst only 44% of non-African LPs plan to increase their African PE allocation, 65% of African LPs plan to increase their exposure to African PE over the next three years. Overall, 76% of LPs plan to increase or maintain their allocation to African PE. Only 5% of survey respondents say that they will decrease their allocation to PE in Africa. In terms of destination, Nigeria is viewed as the most attractive country in Africa with an attractiveness index score of 58% followed by Kenya at 40% and Egypt in third place with a score of 31%. By sector, Financial services was identified as the most attractive sector with a score of 51%.

The findings of the survey are in line with our view on investor sentiments regarding the private equity space in Africa. We expect continuous growth in private equity deals going forward.

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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