Kenya Listed Banks Q3’2018 Report, & Cytonn Weekly #48/2018

Private Equity

Ascent Capital, a private equity firm based in Kenya, is seeking to raise USD 120.0 mn (Kshs 12.3 bn) in its second fund, targeted to close in Q3’2019. The funds raised are expected to be invested in mid-size companies in the East African region, particularly Rwanda and Tanzania.

Investors expected to invest in the fund include the European Investment Bank, with the EIB looking to inject USD 25.0 mn (Kshs 2.6 bn) into the fund. The fund is also looking to raise capital from Development Finance Institutions (DFI’s) and pension funds, who were among the biggest contributors in their first fund, which closed in 2015. Ascent raised USD 80.0 mn (Kshs 8.2 bn) in its first fund with contributions coming from development finance institutions such as CDC Group Plc, the Netherlands Development Finance Company (FMO), The Norwegian Investment Fund for Developing Countries (Norfund) and the Development Bank of Austria (OeEB), who contributed USD 15.0 mn (Kshs 1.5 bn), USD 8.0 mn (Kshs 0.8 bn), USD 33.0 mn (Kshs 3.4 bn) and USD 5.0 mn (Kshs 0.5 bn), respectively, and pension funds such as the Nation Media Group Pension Fund and the Kenya Power Pension Fund contributing a combined USD 5.0 mn (Kshs 0.5 bn).

Ascent aims to leverage its track record in private equity to get investor buy-in into the second fund, having already invested USD 42.0 mn (Kshs 4.3 bn) of its first fund in various companies in East Africa across financial services, retail, health-care and manufacturing sectors, including Medpharm Holdings Africa Ltd (Kshs 250.0 mn), Auto Springs East Africa Plc, and Kisumu Concrete Products (Kshs 1.4 bn), with majority of the investments falling between the range of USD 2.0 mn (Kshs 205.0 mn) and USD 7.0 mn (Kshs 717.6 mn). Ascent is looking to invest the rest of the funds by the end of Q2’2019, while at the same time exiting from one of the investments in the course of the year. In comparison, the second fund is looking to apply the following criteria in injecting capital;

i. Brown-field companies with huge growth potential seeking an average investment of USD 15.0 mn (Kshs 1.5 bn), and,
ii. Companies in sectors such as education and financial services, with investments in the former looking to be channeled majorly towards private schools that target the middle class. This is considering that these sectors have seen exponential growth over the past few years, thus enabling them support the high returns they seek.

This announcement comes less than a month after (i) Catalyst Principal Partners announcing the close of its second fund, having raised USD 155.0 mn (Kshs 15.9 bn), both locally from pension funds and globally from institutional investors. For more information, see our Cytonn Weekly #43/2018, and (ii) Centum Investment Group announcing its plans to raise between Kshs 40.0 bn and Kshs 50.0 bn in a fresh private equity fund to be largely deployed in mature cash generative businesses and marketable securities such as government securities and equities. For more information, see our Cytonn Monthly – November 2018.

These continued capital-raising initiatives signify the increasing investor interest in the region, with investors looking to tap into the opportunities in the fast-growing private equity industry, considering that the value of private-equity deals in East Africa surged to USD 482.1 mn (Kshs 49.4 bn) in the eight months through August, compared with just USD 19.0 mn (Kshs 1.9 bn) a year earlier, according to I&M Burbidge Capital Ltd.

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.
