

Kenya's Attractiveness as an Investment Destination, & Cytonn Weekly #49/2018

Private Equity

JUMO, an emerging market FinTech start-up with operations in Kenya, Uganda, Tanzania, Ghana, Zambia, Pakistan, United Kingdom, Singapore and South Africa, that offers credit through their mobile application to individuals, small businesses and banks, announced that it had received a USD 12.5 mn (Kshs 1.3 bn) equity investment from Odey Asset Management, a London based investment firm that manages global capital from institutional investors, wealth managers, private banks and professional investors. The investment from Odey Asset Management marked the final close of their most recent round of funding that had earlier on, in September 2018, raised USD 52.0 mn (Kshs 5.3 bn) from Goldman Sachs, Proparco (the private sector financing arm of the French Development Agency AFD), Finnfund, Vostok Emerging Finance, Gemcorp Capital and LeapFrog Investments. For more information, see our [Cytonn Q3'2018 Markets Review](#). This additional investment brings the total funds raised by JUMO to USD 103.0 mn (Kshs 10.5 bn). JUMO aims to use these funds to (i) further develop its technology platform, and (ii) support expansion into new Asian markets, in line with its 2019 expansion strategy. Since its launch in 2014, over 10 million people have borrowed and saved on the JUMO platform and the total loans issued are almost USD 1.0 bn.

We have seen similar deals this year that include;

- ?. Branch International, a mobile-based microfinance institution headquartered in California, with operations in Kenya, Tanzania and Nigeria, raised Kshs 350.0 mn (USD 3.5 mn) in capital investment based on its second issued commercial paper in the Kenyan market. For more information, see our [Cytonn Weekly #27/2018](#). Earlier on, in April 2018, Branch International raised USD 70.0 mn in Series B funding, which combined USD 50.0 mn in debt and USD 20.0 mn in equity for an undisclosed stake. For more information, see our [Cytonn Weekly #15/2018](#),
- i. Lendable, a FinTech platform based in Kenya and the US, secured a Kshs 45.3 mn (USD 0.45 mn) convertible grant from the Dutch Government's Micro and Small Enterprise Fund (MASSIF), managed by FMO, the Dutch Development Bank. In October last year, the firm announced that it had raised Kshs 671.0 mn (USD 6.5 mn) in a Series A round of investment. In April last year, the firm also secured Kshs 56.6 mn (USD 0.55 mn) debt financing for Raj Ushanga House (RUH), the Kenya distributor for Azuri Technologies Ltd, a leading provider of Pay-as-you-go (PayGo) solar energy solutions. For more information, see our [Cytonn Monthly - August 2018](#), and,
- ii. Musoni, a Kenyan microfinance institution, issued out Kshs 2.0 bn in debt notes with a tenor of 2 to 3-years and offering investors a chance to roll over funds instead of cashing in at maturity. The issue of the debt notes is to take place in four tranches of Kshs 500.0 mn each. The Kshs 2.0 bn debt note will be used to grow their loan book, which stood at Kshs 1.8 bn as at December 2017. For more information, see our [Cytonn Weekly #26/2018](#).

The continued increase in investments and funding of microfinance institutions in Africa is in a bid to grow the institutions loan books to achieve competitive low-cost lending. In Kenya for instance, bank funding continues to be relatively expensive with banks having an average Annual Percentage Rate

(APR) of 17.2%, (cheapest banks having an average (APR) of 13.0%, while the most expensive banks having an average APR of 24.9% as at December 2018), and as the private sector credit growth remains below the government target of 18.3%, having come in at 4.4% in September 2018. Bank funding accounts for 95% of business funding in Kenya compared to 40% business funding by banks in developed markets, which highlights the need to diversify funding sources, and enable borrowers to tap into alternative avenues of funding that are more flexible and pocket-friendly.

Emerging Capital Partners (ECP), a US based private equity firm has acquired a majority stake in Artcaffé Group, a Kenyan based hospitality chain. The stake acquired as well as the amount were undisclosed. This will not be the first deal that ECP has gotten into in the Kenyan hospitality sector as it had earlier on acquired Java House in 2012 and led the expansion strategy that saw the Java outlets increase from 13 to 60 by the time it sold its stake to Abraaj in 2017. Currently, Artcaffé Group operates 26 different restaurants in the country under its 5 distinctive brands; Artcaffé Coffee and Bakery, Dormans Coffee shops, OhCha Noodle Bar, Urban Burger Bar, and Tapas Ceviche Bar. The group has been operating for 10-years within the casual and quick-serve restaurant space in Nairobi. The acquisition by ECP will be beneficial to Artcaffé as; (i) the business will benefit from ECP's experience and knowledge in running and managing multinational businesses, and (ii) it shall facilitate the business's expansion strategy to increase its outlets and capitalize on the growing middle-class and increasing urbanisation, which has led to increased demand for international cuisine and casual, high quality dining experience.

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 a stable macroeconomic environment will continue to boost deal flow into African markets.