

# Sub-Saharan Africa (SSA) Eurobonds, & Cytonn Weekly #03/2019

## Private Equity

Branch International, a mobile-based microfinance institution headquartered in California with operations in Kenya, Tanzania and Nigeria, raised a further Kshs 500.0 mn (USD 4.9 mn) in capital investment based on its third issued commercial paper in the Kenyan market. The Silicon Valley start-up, founded in 2015, processes loans ranging from Kshs 250 to Kshs 70,000 daily and applies machine learning to create an algorithmic approach to determine credit worthiness via customers' smartphones.

The commercial paper was arranged by Barium Capital, a capital-raising advisory firm owned by Centum Investments. The investment is expected to expand Branch's business in Kenya. Branch International has so far disbursed more than Kshs 25.0 bn (USD 245.8.0 mn) and distributed more than 10.0 mn loans. This is the third time Branch International has issued a commercial paper. In July 2018, Branch international raised Kshs 350.0 mn (USD 3.5 mn), arranged by Barium Capital through the issuance of its second commercial paper as highlighted on [Cytonn Weekly #27/2018](#) and in 2017, Branch International raised Kshs 200.0 mn (USD 2.0 mn) through the issuance of its first commercial paper.

The table below highlights the fundraising activities by various FinTech companies with operations in Kenya:

### Fundraising Activities by FinTech Companies

| No. | Funded Entity        | Investor   | Form of Funding | Investment Amount (Kshs bns) | Date   |
|-----|----------------------|--|-----------------|------------------------------|--------|
| 1.  | Tala                 | Revolution Growth  | Equity and Debt | 6.5                          | Apr-18 |
| 2.  | Branch International | Trinity Ventures, CreditEase Fintech Investment Fund, Victory Park, IFC, and Andreessen Horowitz | Equity and Debt | 7.0                          | Apr-18 |
| 3.  | Africa's Talking     | Orange Digital Ventures, Social Capital and International Finance Corporation (IFC)              | Equity          | 0.9                          | Apr-18 |
| 4.  | Cellulant            | Texas Pacific Group (TPG) and Satya Capital  | Equity          | 4.8                          | May-18 |
| 5.  | Bitpesa              | Sompo Holdings   | Equity          | 0.5                          | Jun-18 |
| 6.  | Bismart Insurance    | GreenTec Capital Partners  | Equity          | Undisclosed                  | Jul-18 |

FinTech lending and Microfinance Institutions in general have been a major attraction for investors in Kenya and Sub-Saharan Africa. Lack of access to finance is a major issue for entrepreneurs and MSMEs across Africa. According to the IMF, there are 44.2 mn MSMEs in Sub-Saharan Africa with a potential demand for USD 404.0 bn in financing. The current volume of financing in Sub-Saharan Africa is estimated at USD 70.0 bn signifying a huge financing gap of USD 331.0 bn. Microfinance Institutions and FinTech companies aim to bridge this gap by offering convenient access to credit.

In the education sector, Dubai based GEMS Education, an international education company owned by a consortium of institutional investors, including Varkey Group and American private equity firm Blackstone Group, plans to put up five middle-range schools in Nairobi at a cost of USD 20 mn (Kshs 2.0 bn). The investment will continue the Dubai based company's initiative to expand in the Kenyan market. Additionally, they plan to set up low cost Kenyan curriculum schools charging between Kshs 20,000 to Kshs 40,000 per year from 2020. The group is also planning to open Regis Runda School, which is built on 26-acres with a capacity of 2,000 students, in January 2020. This investment comes a week after GEMS acquired a 100% stake of Hillcrest International Schools from its current owners, Fanisi Capital and businessman Anthony Wahome, for Kshs 2.6 bn as highlighted in our **Cytonn 2019 Markets Outlook**.

The Ministry of Education has announced plans to give loans at subsidized interest rates and education bonds to entrepreneurs to build schools and plug the capacity shortfalls coming from reduced State funding. The Ministry is also proposing to float sovereign bonds to support the funding of the education sector. These are some of the proposals that were tabled in the National Assembly in December 2018 on Reforming Education and Training for Sustainable Development by the Ministry of Education. Kenya currently invests 6.4% of GDP annually on education and this heavy investment is borne largely by the government. The bulk of the investment goes to the payment of teachers' salaries leaving little for building classrooms, laboratories and dormitories. In the 2018/2019 Budget, the government allocated Kshs 200.5 bn to the education sector in order to enhance quality and relevant education and enhance the expansion of Technical and Vocational Education and Training institutes. The proposal tabled in the National Assembly will enhance access to quality education and provide investment opportunities to investors through the access of loans at a subsidized rate. We are of the view that the government should encourage Public-Private Partnership (PPP) to help reduce levels of government financing and enable the government to obtain greater value for their investments in the education sector.

*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) attractive valuations in Sub Saharan Africa's private markets compared to its public markets, and (iii) 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.*