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Private Equity

Britam Asset Managers has bought a 40.0% stake worth Kshs 1.4 bn in a local electricity producer, Gulf Energy, through a New York-based energy investment vehicle Everstrong Capital as the company seeks to diversify its investments beyond traditional investments. According to the Chief Executive Officer, Kenneth Kaniu, the investment will help achieve diversification of returns across asset classes, as well as currency, hence mitigating exchange rate risks. This is because returns from the power plant will be in form of hard currency, and Kenya’s cost of power is priced in US Dollars, due to the existence of the foreign exchange levy in electricity bills sent to homes and businesses. Power producers get compensated for expenditure done in foreign currency such as repayment of loans and equipment bought abroad, making the sector attractive to international investors. Gulf Energy supplied 8.0 mn kilowatt hours (KWh) of electricity to Kenya Power worth Kshs 3.5 bn in the year to June 2018. The 80.2-megawatt, USD 112.0 mn thermal plant in Athi River, started operations in 2014 and has a 20-year Power Purchase Agreement with Kenya Power. In making the investment, the asset management company is playing a role in the provision of long-term capital into the Kenyan power sector. In our view, the investment will boost the returns of Britam Asset Managers as it diversifies into the power industry, as it stands to benefit from stable returns for the remaining 16-year investment horizon.

Dutch impact investor Goodwell Investments has made a USD 2.0 mn (Kshs 203.0 mn) investment in Nairobi-based consumer goods catalogue and delivery service Copia for an undisclosed stake. Copia, a Silicon Valley start-up launched in Kenya in 2013, uses technology and a network of more than 3,000 local agents to deliver goods and services to about 40,000 “underserved consumers” in rural Kenya. Copia enables households to access goods that would otherwise be difficult to obtain without travelling to a major city. Pre-paid orders made through the firm take on average two to three days to be delivered. Copia has grown tremendously since 2013, with 3,000 agents and executing 80,000 orders a month. It serves 40,000 customers, translating to a 28.0% market share in Kenya. The Dutch investor has set its sights on continental expansion following the capital injection, as it estimates that Copia’s total addressable market could comprise several emerging markets in Sub-Saharan Africa, Latin America and Asia as well, representing a potential purchasing power of over USD 5.0 tn a year. Goodwell also holds a stake in Lidya, an online provider of working capital loans to small businesses in Nigeria, and MFS Africa, which touts itself as “Africa’s largest and fastest growing mobile money aggregator and interoperability platform”.

Andela, a Silicon Valley corporation launched in 2014 to identify and train software developers in Africa, has concluded a USD 100.0 mn (Kshs 10.3 bn) Series D funding, raising the firm’s venture funding to USD 180.0 mn (Kshs 18.1 bn). Generation Investment Management led the round, with input from existing funders including the Chan Zuckerberg Initiative, GV, Spark Capital, and CRE Venture Capital. Andela, which identifies and moulds engineering expertise, has since hired 1,100 developers worldwide and integrated them into key companies such as Safaricom. The funds will be used to expand Andela’s performance by accelerating the growth of its trade in technology through talent development. The New York-based form had previously raised USD 24.0 mn (Kshs 2.4 bn) in 2016, which was used to identify and grow developers for deployment in multinational companies. The software company will likely continue to deploy new resources to offer developer performance to its 200 customers. Currently, Andela has bases in African countries including Kenya, Nigeria, Uganda and Rwanda.

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.