

# Ruaka Real Estate Investment Opportunity, & Cytonn Weekly #11\_2019

## Private Equity

African Private Equity and Venture Capital Association (AVCA) released their 2018 Annual African Private Equity (PE) Data Tracker. The report highlights private equity activity in 2018 in terms of (i) fundraising, (ii) deal tally and value, and (iii) exits.

### I. Fundraising

The total value of African PE fundraising increased by 12.5% to USD 2.7 bn in 2018 from USD 2.4bn in 2017 as highlighted in the chart below. This indicates a positive shift in investors' confidence in Africa's PE industry following declines in 2016 and 2017, after a peak in 2015, which saw a handful of large funds achieving final closes during the year.

### II. Deal Tally and Value

The total value of deals reported decreased by 10.3% to USD 3.5 bn in 2018, from USD 3.9 bn in 2017, as highlighted in the chart below. The total number of deals rose significantly reaching 186 reported PE deals in 2018 from 171 deals reported in 2017. The report also ranked industries according to their contribution to total deal value between 2013 and 2018. The communications services accounted for the largest share of deal value at 27.0%, followed by the utilities sector, which recorded 21.0%. In terms of geography, West Africa accounted for 25.0% of the total value of PE deals recorded between 2013 and 2018. North Africa accounted for 13.0%, while Eastern Africa accounted for 8.0% of the total deal value.

We expect PE activity in Africa to expand driven by, (i) economic growth, (ii) political stability, and (iii) positive investor sentiment.

### III. Exits

With 46 recorded exits, 2018 marked a drop in overall exit activity compared to the previous year's high of 52. This was largely due to a fall in the number of exits recorded in South Africa (representing 20.0% of exit

volume in 2018, compared with 42.0% from 2013 to 2017), against a backdrop of heightened macroeconomic uncertainty in the country.

In terms of exit routes, the growing trend of exits to PE buyers (secondary sales), which emerged in 2016, persisted in 2018 accounting for 37.0% of exits reported compared to 35.0% in 2017.

However, 2018 also saw a relative rebound in the share of exits to trade buyers to 39.0% from 25.0%

the previous year. This led to trade buyers representing the largest volume of exit routes in 2018, followed by PE and other financial buyers at 37%. IPOs and capital market exit continued to represent the lowest share of recorded exits at 2.0%.

We expect increased exit activity driven by development and diversification of exit routes. Initial Public Offering (IPO) exits still remain a concern and we expect this trend of PE firms exiting by way of IPOs to remain considerably low given the tedious procedures involved in a company going the IPO way. A shift in this trend is only achievable if there is an improvement in the local capital markets by putting in place measures that will: (i) make the process of companies going public by means of an IPO easier, (ii) encourage disclosures for non-listed companies in order to improve transparency and accessibility of information, which boosts investor confidence, making it easier for firms to raise capital during IPOs, and (iii) encourage foreign participation through improved regulation, good economic fundamentals and empowering private initiatives.

In Kenya, the Nairobi Securities Exchange has introduced Ibuka Program, an incubation and acceleration platform that will help address the listing drought at the bourse and we expect that will open up more private equity exit channels.



#### IV. Regional Outlook

The report highlighted the key private equity markets in Africa namely;

- ?. South Africa, which accounted for 70.0% of the total value of PE deals in Southern Africa between 2013 and 2018, is expected to play a key role in the growth of African private equity driven by an improving economic environment,
- i. Nigeria accounted for 73.0% of the total value of PE deals in West Africa between 2013 and 2018. Efforts that were made by the government to enhance the country's credibility contributed to the significant growth in Foreign Direct Investment, which accounted for 18.6% (USD 530.6 mn) of total capital imported in Q3'2018 according to data from Nigerian Bureau of Statistics (NBS). Overall, the outlook for 2019 remains positive as further growth is projected for the region, and,
- ii. Kenya accounted for 59.0% of the total value of PE deals in East Africa between 2013 and 2018. Its liberalized, diversified and advanced economy, supported by a fast-growing middle class and strong demand for high-value goods and services has made it an attractive investment hub for global investors.

***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.***