

# The Role of the Capital Markets in Economic Development & Cytonn Weekly #12 2019

## Private Equity

OneFi, a Nigeria-based FinTech firm that provides mobile loans to clients, announced plans to buy-out Amplified Payment System Limited (Amplify), a mobile payment solutions firm that provides platforms to connect banks based in Nigeria for an undisclosed amount. According to the announcement, OneFi will acquire Amplify’s intellectual property, staff and clientele, comprising of more than 1,000 merchants who transact on the platform. Amplify was set up in 2016 with an aim of becoming the primary technology enabler for digital financial services across Africa. OneFi targets to ease access to finance by leveraging data and technology. Their lending process is fully online via their Paylater mobile application. The new acquisition is expected to fasten OneFi’s transition from a primary mobile lender to a fully-fledged mobile-based consumer finance platform, and differentiate its services both locally and in the African region. There has been a rise in competition in the African FinTech sector from other FinTech start-ups such as Kenya’s M-PESA, that has expanded its mobile-money services to the global market in partnership with Western Union, the American financial services and communication company.

In recent years, FinTech has developed to be one of the most attractive investment sectors in Africa and continues to bear even more opportunities. In 2018, FinTech ranked the highest both in deal activity and transaction value among the sectors we are tracking below, having raised Kshs 27.0 bn of the total value of reported fundraising deals, which came in at Kshs 32.7 bn, with 10 transactions out of a total of 15 in the year.

### 2018 Private Equity Fundraising Activity by Sector

Sector	Funding Raised (Kshs bns)	Entities Funded
FinTech	27.0	10
Financial Services	2.8	3
Education	4.9	2
Real Estate	None Disclosed	
Hospitality	None Disclosed	
<b>Total</b>	<b>34.7</b>	<b>15</b>

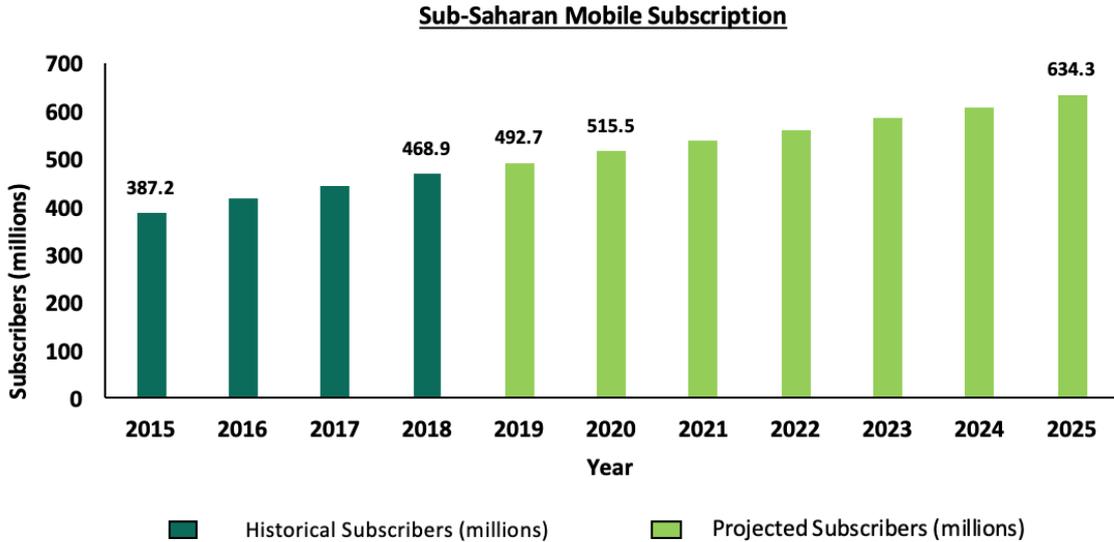
Source: Cytonn Research, 2018

As developed countries adopt new standards in mobile banking, countries in Africa need not follow the historical trajectory (widespread branch networks, ATMs, etc.) but can jump straight to the new, and more efficient mobile infrastructure. Mobile payment solutions are available to those without a

traditional bank account and there lies the opportunity for African financial technology companies.

The opportunity is as a result of two key factors;

I. **Rising Mobile Penetration:** According to Global System for Mobile Communications (GSMA), a trade association that represents the interest of mobile network stakeholders globally, mobile penetration in Sub-Saharan Africa remains low, estimated to be 44.0% in 2017, well below the global average of 66.0%, with a total subscriber base of 444 million consumers, representing only 9.0% of subscribers globally. Mobile penetration is expected to grow to 47.0% and 52.0% by 2020 and 2025, respectively, driven by a rapid growth in smartphone adoption and opening up of rural markets in the region. Below is a projection of the Sub Saharan Mobile Subscription and Penetration according to the GSMA Report, 2018;



Source: *The Mobile Economy Sub-Saharan Africa 2018 Report, GSMA*

The regional mobile subscriber base is expected to grow at a CAGR of 4.8% between 2017 and 2022, from 443.7 mn in 2017 to 561.3 mn expected subscribers in 2022, achieving a penetration rate of 50% by 2023. High mobile penetration is expected to provide a channel for the development of mobile financial services. This is the case for Kenya where mobile penetration currently stands at 100.1% and as a result, the mobile activity has increased rapidly with the value of mobile money transactions reaching Kshs. 4.0 tn equivalent to 45.3% of the country’s GDP.

II. **Limited Access to Traditional Financial Services:** According to the World Bank’s Global Findex Database, only 33.0% of the population in Sub-Saharan Africa have accounts in financial institutions compared to 94.0% in North America and 96.7% in Europe. In addition to this, insurance penetration is also lagging behind at 3.0% compared to 7.1% in North America and 6.4% in Europe.

Combined, these two factors present an untapped market for financial services products while also providing an efficient channel to deliver these services. As such, we expect the FinTech sector to continue to attract more investors into the African market space.

***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.***

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